Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1988

89-02747/

Nova Scotia

Honourable A.R. Donahoe, Q.C.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1988, my Annual Report to the House of Assembly, in accordance with Section 8 of the Auditor General Act.

Respectfully submitted

O.P. Cormier

O.P. Cormier, F.C.A.
Auditor General

Halifax, Nova Scotia
January 31, 1989

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INTRODUCTION

Introduction

Two developments concerning this Office during the past year, both of an administrative nature, deserve particular mention in this Introduction.

One was the Legislature's approval of a number of amendments to the Auditor General Act, for which I am indeed grateful and wish to express my appreciation to the Members of the House of Assembly. The most significant of these was a new Section 14 of the Act, which provides the right to conduct audits of recipients of financial assistance from government. A mandate to perform value-for-money reviews for economy and efficiency was formalized, and a host of administrative amendments were made as well. It is my hope that Government will see fit to deal with other proposed amendments I have made to strengthen the independence of this Office.

Secondly, the Office has revised its manner of handling financial statement audits, and we are in the early stages of revising our approach to departmental audits. Both initiatives have already increased efficiency in the performance of our audits, and we believe even more can be achieved.

This Report continues the extensive description of the role and responsibilities of the Auditor General, initiated last year in order to promote a greater understanding of the mandated responsibilities of this Office.

Two other articles warrant mention. One on financial position and operating results comprises selected financial analyses and commentary, supplemented by graphs. The other, "Status Prior Years' Observations and Recommendations", provides a convenient reference to action taken on important items from previous Annual Reports.

Two sections on crown agencies and special departmental reviews describe the results of 11 special audits and 4 follow-up articles from previous audit assignments. These represent in-depth reviews of crown agencies, departments, or a government-wide audit review. I repeat my conviction that this type of assignment, concerned more with the management of a function, operation, project, or program, is the most beneficial we can undertake. These in-depth reviews result in more

meaningful reporting to the Legislature on how well government departments and agencies fulfill their responsibilities.

In view of the extensive publicity concerning the Canada-Nova Scotia Development Fund, which resulted from comments by the Auditor General of Canada in his 1988 Annual Report, I have included an article describing our role in the audit of claims associated with this Fund.

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The mode of reporting for my Annual Report is one which might be termed "reporting by exception". We must comply with the reporting requirements of Section 8 of the Auditor General Act, as well as those that flow from Sections 7 and 16. Accordingly, the majority of audit findings and comments point to shortcomings and weaknesses, and indicate suggested corrective action.

However, as I have indicated in previous Annual Reports, *"The majority of our departmental audit reports contain positive findings and conclusions resulting from our audit assignments."* To provide a more complete perspective on our audit activities during the year, listings of all audits performed are included in this Report as Appendices II and III. By comparing the extent of commentaries found in the three sections relating to crown agency audits, special departmental reviews, and other observations, with the 70 audits listed in these two Appendices, the reader will conclude that the majority of our audits do not result in reportable findings and conclusions.

Previous Reports have, where possible, acknowledged the auditees' response to our audit conclusions and recommendations. This year, we have exerted a greater effort to solicit responses for inclusion in my Annual Report. As described more fully in the article on Office of the Auditor General, our plans to change the timing of and restructure the reporting on certain of our audits should facilitate an even better opportunity for auditees to react to our recommendations and indicate corrective action.

It is my contention that the role of an Auditor General is not only to report to the House of Assembly in accordance with the legislative responsibilities under the Act, but also to provide auditees with

constructive evaluations and recommendations for improvement that are practical and can be acted upon. Accordingly, it is most satisfying when an unfavourable audit observation is recognized as requiring positive remedial action, and this action is promptly implemented.

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Again, it is my pleasure to acknowledge the excellent cooperation extended to our office staff in the performance of their audit assignments by the officials and staff of government departments and agencies. In particular, I would like to express my thanks for the various administrative and support activities provided by the Civil Service Commission, Management Board, the Departments of Finance and Government Services, and the Systems and Computer Services Division of the Department of Government Services.

In expressing my tribute to the excellent performance of our staff, both audit and administrative, during the past year, there are three matters which bear mention. A revised approach to certain of our audit activities was accepted and implemented; continuing substantial strides were made in the conduct of our special or broad scope audits; and we experienced several senior staff transfers from our Office to other departments. In light of these developments, the accomplishments of all staff, including those who were with us for only part of the year, are an even greater reflection on their dedication and professional capabilities.

In June 1988 we were shocked by the tragic accidental death of one of our audit supervisors, Cheryl Llewellyn. Although her stay with us was only for a few years, her performance was of such outstanding calibre that she will be long remembered by those of us who were privileged to work with her. The passing of a young professional with such potential is indeed unfortunate.

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SUMMARY

Summary — 1988 Annual Report

This summary presents the principal matters dealt with in the Annual Report. It notes key observations, conclusions and recommendations, but does not include reference to all matters found in the Report.

Audit Responsibilities

This year I again include an extensive description of the role and responsibilities of the Auditor General, and the auditing environment within which the Office functions. This is done to provide a greater degree of understanding of what this Office does, and should do, in fulfilling its mandated responsibilities. It is presented under four topics: Role of the Auditor General; Independence of the Auditor General; Participants in the Audit Process; and the Auditor General Act.

There is reference to the amendments made to the Act in 1988 regarding the right to perform audits of recipients of grants and assistance from the Province, and the responsibility to report all instances in which expenditures are not made with due regard for economy and efficiency. Reference again is made to the need for further amendments to the Auditor General Act to provide a proper degree of independence for the Office. These amendments relate to the process for appointment of the Auditor General and Deputy Auditor General; and review and approval of resource requirements for the Office.

The article on Scope of Audit Examinations references those sections of the Auditor General Act concerning audit and reporting responsibilities. It describes the types of audit performed, and lists the crown agency and corporation audits, and the special departmental reviews performed during the past year.

Accountability and Management

This section of the Annual Report continues the discussion of the Accountability Process. Although dealt with in prior Reports it is of importance, and warrants coverage again. This year's treatment of the subject does reiterate certain of the points from prior years, but there are several significant enhancements. The discussion is under four topics:

- Estimates — While repeating my concerns about the need for greater use of result indicators in the Estimates process, this year's article introduces some relevant commentary from the 1988 Study of the Canadian Council of Public Accounts Committees, in which it is suggested that legislators review the Estimates process to consider several means being suggested to improve their examination of the Estimates.

- Public Accounts — I acknowledge that the Public Accounts of the Province present fairly its financial position and operating results for the year, but note three departures from what I would consider appropriate accounting and financial statement disclosure. In addition, this article discusses the relevance of certain recent pronouncements of the Canadian Institute of Chartered Accountants Public Sector Accounting and Auditing Committee relating to Government financial statements.

- Audit — This section of the article introduces, for the first time, a more precise discussion of the role of audit in the accountability process, a function superimposed upon the other segments of this process.

- Public Accounts Committee — Reference is made to the Study of the Canadian Council of Public Accounts Committees, primarily concerning the role of a Public Accounts Committee in the accountability process, and also recommendations for the Annual Report of a Public Accounts Committee.

The article on Management of Government Resources is introduced by noting that the findings from certain audits conducted during the year have again demonstrated the need for more attention to be directed towards basic management matters. There is a reiteration of comments from previous years to the effect that increasing pressures on available resources have tended to make the fiscal challenge the greatest one facing Government.

Accordingly, it is my contention that there must be a greater degree of responsibility assumed by Government, preferably at the Management Board level, to ensure that there are adequate resources, policies and practices relating to management, not only throughout Government departments, but also in entities or operations supported by Government funding.

This year's article references several relevant sources, to focus not only on concerns regarding management of Government resources, but also on recent positive developments. These are: two studies of the Canadian Comprehensive Auditing Foundation on effectiveness and on transfer payments; a study by the Auditor General of Canada on constraints to productive management in the Public Service; an approach to effectiveness evaluation used by the Standing Senate Committee on National Finance regarding research funding; and some concerns expressed in 1988 to The Nova Scotia Royal Commission on Health Care.

Financial Position and Operating Results

This section presents an analysis of, and commentary on, four indicators commonly used in an evaluation of financial position and operating results, namely net debt, operating deficit, major revenues and expenditures, and a comparison of actual results to the Estimates. These are supplemented by graphs showing per capita data, and an expanded commentary on the effects of deficits and debt financing. Acknowledging recent efforts to reduce the deficit, and in particular the introduction of a three-year deficit reduction program, I again note that all demands on the public treasury cannot be met, and that spending requests will have to be as realistically priorized as possible.

There is an article on Additional Appropriations, again pointing out the need to have these approved prior to the actual expenditures. Citing the fact that, in 39 of 45 instances where additional appropriations were approved, the overexpenditure occurred before the date that the authorization was given. A schedule of all additional appropriations over $50,000 is included this year, although it is recognized that the Public Accounts do present this information as well.

Crown Agencies and Corporations

Our Office reviews the auditors' reports on all crown agencies and corporations not audited by us. Findings from this review include:

— the initiation of annual audits by Sherbrooke Restoration Commission;

— the first audits for Schooner Bluenose Foundation were conducted in 1988 for the fiscal years ending March 31, 1986, 1987 and 1988; and

— the financial statements of Workers' Compensation Board were issued without qualification for their December 31, 1987 year-end, but there was again considerable delay in the completion of the audit.

I repeat my comments from previous years that there is a need for legislation to apply to all crown agencies and corporations that would include certain requirements relating to accountability, and a more precise definition of the status of such entities.

In addition, we completed the following special audit reviews.

- **Boards and Commissions** — We conducted a government-wide study of boards and commissions, not just those audited by our Office. Twelve entities were selected as representative of the group, and they were reviewed in more detail, concentrating on the systems providing information to the board, the minutes of board meetings and subcommittees, and other areas including representative transactions in which the board would be involved. A set of eight general criteria with additional subcriteria was used to perform our assessment. Our audit revealed a reasonably acceptable situation concerning the operation of the twelve boards and commissions examined, but we have recommended that Government ensure clarity of mandate and accountability in each entity's legislation, and that consideration be given to the preparation of guidelines to provide direction appropriate for the operation of all boards and commissions.

- **Nova Scotia Power Corporation** — We performed a special examination at the Corporation involving a review of six principal areas, namely: financial position and operating results; financial planning, budgeting and reporting; capital expenditure planning and control; rates and regulations process; audit coverage; and Board of Directors. Our overall impression was that the Corporation's general management policies and practices were appropriate in the specific areas we reviewed. There would seem to be a critical need for the Corporation to take action to deal with anticipated significant future operating

losses. Financial management control systems and procedures appear generally appropriate, but there were some areas requiring improvement and certain of these were already being addressed. We identified specific areas for improvement in the internal audit function, so the Corporation may have the benefit of a more effective resource.

- **Trade Centre Limited** — We reviewed key functional areas of the Corporation from an operational or managerial standpoint, and our audit did not reveal any major problems or deficiencies, although we had a number of recommendations for consideration by management. We noted that the Board of Directors plays an active role in overseeing the management of the Corporation.

- **Workers' Compensation Board** — We completed a follow-up review to determine the status of action taken or planned to address recommendations reported to the Board as a result of a preliminary review we performed in late calendar year 1985. The organization and the administrative structure of the Board and its major departments has been changed to provide a better management and control of day-to-day operations. Progress has been made to address recommendations made by this Office, as well as consultants, for improving the accounting function, and resources have been devoted to effecting improvements in the data processing function. We note other important developments since our 1985 review: the appointment of a Ministerial Action Group in 1986; reductions in the Consumer Price Indexing Reserve on the Board's financial statements; and a change in external auditors commencing with the December 31, 1986 fiscal year.

Special Departmental Reviews

Certain of our more extensive and worthwhile audit endeavours concern the management of specific functions on a government-wide basis, or in an individual department or agency. During the past year, we conducted 11 of these special assignments — seven of which were in-depth reviews; one the second phase of an assignment commenced the previous year; and three were follow-ups to audits previously completed.

The results of our seven in-depth reviews are summarized below.

- **Attorney General: Provincial Judges and Prothonotaries** — During the past year, we completed an audit of Provincial Judges Administration Units, and Prothonotary Offices. The audit was concerned with an evaluation of the systems and internal controls over revenues, receivables, and receipts; an evaluation of a computerized management information system; and an evaluation of the collection system for outstanding fines. Our overall conclusions were that the systems of control over both Provincial Judges Administration Units, and Prothonotary Offices are generally inadequate, due primarily to the lack of a proper segregation of duties at most offices. We acknowledge that this situation is due to small numbers of staff at these offices. We concluded that the design and control of the computerized management information system was adequate, but that there were serious deficiencies in the systems being used to monitor and collect outstanding fines.

  It is important to note that senior officials of the Department have indicated an acceptance of our audit conclusions and recommendations. Positive corrective action was initiated prior to and immediately after the receipt of our report.

- **Community Services: Homes for Special Care** — We completed an audit of Homes for Special Care, of which there are 171 in the Province, including Homes for the Aged, Nursing Homes, Residential Care Facilities, Adult Residential Centres, Community Based Residential Facilities, and Regional Rehabilitation Centres. Under the Homes for Special Care Act, the Department of Community Services has responsibilities with respect to these Homes. We examined four aspects of the Department's responsibilities, from the point of view of the adequacy of systems and procedures relating to these responsibilities, and the Department's performance related thereto. The four areas were: classifications and assessments; monitoring of Homes for licensing requirements, and level of care standards; capital requirement responsibilities relating to construction and financing; and the rate-setting process.

  We concluded that the systems were adequate for the Department to fulfill the responsibilities assigned to it under legislation and associated regulations, and that its review,

inspection and monitoring procedures were adequate. However, we observed significant deficiencies in the appeal process, concerning information being submitted to the appeal hearings and the timeliness of decisions on appeals. These matters are under consideration by the Department.

- **Departmental Annual Reports** — We completed a review of annual reports prepared by the departments of the Government of Nova Scotia. The last such review by this Office was performed in 1978. The objectives of this year's assignment were to determine whether requirements and guidelines of the Government's Management Guide were being complied with; and to assess the most recent departmental annual reports against criteria, which we identified.

  There were five general criteria, and more specific subcriteria against which these reports were assessed. It was our conclusion that compliance with Management Guide requirements could be improved by more timely preparation of reports, the provision of more detailed guidelines for these reports, and various enhancements in the information included in them.

- **Government Services: Property Management** — We performed a review of the property management function as administered by the Department of Government Services. This involved:

  — the obtaining of an understanding of the Government's policies and approach to property management;

  — a review of operating practices of the Department for this function;

  — a determination of the reasons for the recent significant increase in rental costs; and

  — a review of the lease/purchase arrangements for the Joseph Howe Building and One Government Place.

  We noted that there was no long-range plan for property management; commitments for leased space were made without the benefit of a long-range plan or detailed analysis of space needs; there was no tendering for leased space;

departments are not being charged for the space they occupy; and the proportion of owned versus leased space by the Province is significantly different than in other provinces.

We determined that the substantial increase in lease rates between 1982-83 and 1987-88 was primarily due to increased rental rates for properties in the Halifax-Dartmouth area; an increase in the quality of office space occupied by government departments and agencies; and an increase in the amount of space occupied by government.

In our review of the lease/purchase arrangement for the Joseph Howe Building, it was not possible to arrive at a comparative market price because of the unique nature of the property. We were, however, able to arrive at a present value for the payments to be made over the term of the lease. Our review of the lease/purchase arrangement for One Government Place was based upon a comparison of the present value of the required payments with a purchase offer made by a foreign investor. In our view, the amounts being paid under these two agreements do not appear to be unreasonable, particularly because ownership of the properties will pass to the Province in 25 years.

- **Lands and Forests: Nurseries and Air Services** — The primary focus of our special audit in 1988 was to review and evaluate head office accounting systems and controls. In addition, we reviewed management procedures and controls in two operating divisions, namely Nurseries, and Air Services. We identified the objectives of these Divisions, and the procedures and controls used to evaluate whether the objectives were being achieved, and evaluated the reasonableness of the controls being used.

  It was our impression that the Nursery Division is striving for and achieving growth and development, while maintaining control over day-to-day operations and quality of production.

  Our objective for Air Services was to assess how accounting and management controls contributed to the achievement of the Division's goals, but we did not address the efficiency of the air services provided. We found the accounting systems, as well as management controls, to be adequate.

- **Nova Scotia Business Capital Corporation: Receiverships** — Effective April 1, 1988, the Nova Scotia Business Capital Corporation, a new crown corporation, assumed the administrative and lending functions previously conducted by Industrial Estates Limited and the Resources Development Board. During 1988, we conducted a special examination dealing with receiverships performed on behalf of these predecessor organizations over a five-year period, from 1983 to 1988. This encompassed a review of 34 receiverships, 18 initiated by Industrial Estates Limited, and 16 by Resources Development Board. The amount of financial assistance outstanding at the date these receiverships began, plus advances to receivers during the course of the receivership, totalled over $38 million. Nearly $18 million was recovered during the receivership process, resulting in a residual loss of over $20 million. Total receiver fees for all of these, including ones concluded and those still active, amounted to $3.4 million.

  The objectives of this assignment were to ascertain the policies and practices followed by the two predecessor entities concerning receiverships, and to evaluate administration of receiverships by these lending organizations with respect to appointing, monitoring, reporting, and the remuneration of receivers.

  We determined that there were no formal guidelines or administrative policies for receiverships regarding the appointing of receivers, monitoring of them during the course of the receivership, and the approval of receivers' fees; nor were there reporting requirements of receivers on progress and results. Although there were certain informal practices in place, it was not possible without more structured guidelines for agency and department staff to fulfill their responsibilities regarding administration of and control over receiverships. We have made a series of recommendations to the Corporation for its consideration regarding all aspects of receivership administration with which the lender is directly involved.

- **Tourism and Culture: Grants and Inspection Services** — Our assignment included an evaluation of the Department's accounting systems and controls; and a review of certain grant programs and inspection activities conducted under the Hotel Regulations Act and the Camping Establishments Act.

It was our conclusion that the Department is fulfilling its legislated mandate under these Acts, and that the systems relating to inspection activities were adequate.

We reviewed the systems of control for administering two types of grant programs. One category of grants relates to sustaining grants to organizations, and the second type are those which meet specified criteria for general attractions and events. On the basis of criteria we developed, it was our conclusion that the systems were adequate to administer these two types of programs and that the criteria were generally met in all cases we reviewed.

We completed the second phase of a special review, the first phase of which was performed the previous year.

- **Result Indicators** — During 1988 we completed the second phase of our examination of the use of result indicators. The objective of Phase II was to review the appropriateness of the particular result indicators developed in each department, and the uses being made of the information produced.

  Our audit work this year supported the contention made previously, that the result indicators process is not being as widely used as had originally been intended. Most departments had not moved beyond the operational output level to the program and program effect levels which, in our view, are more useful to senior management and therefore more useful in overall administration of activities and programs. We also found there is a tendency to accumulate detailed statistics at the operational level, but little attempt to analyze the statistics for the purposes of performance measurement.

  We again recommend that Management Board should consider revising and issuing additional policy direction with respect to result indicators; and that there should be a higher priority on the development of performance measurement systems, both at the department level and by Management Board.

We performed follow-up examinations to three special assignments conducted in previous years. The results were encouraging, in that there has been a significant amount of action taken towards implementing our recommendations.

- **Advanced Education and Job Training: Vocational Schools** — In late 1985 and early 1986, we conducted a special review of the controls over the 11 regional vocational schools under the supervision of the Department. In 1988, we performed a follow-up review to assess the status of recommendations made in our report on this assignment.

  The Department has acted on many of our recommendations. It is acknowledged that during the intervening period since the audit, the Department has been involved in organizing itself as a new department, and preparing for the implementation of the White Paper on a Community College System for Nova Scotians, "Foundation for the Future" — two extremely demanding tasks.

  Regarding the four areas upon which we reported:

  Management control systems: We had noted that although there was sufficient data available, the analysis of it was almost non-existent, and we had recommended there be a more formalized approach to data analysis and inter-school comparisons. Since then a computer has been acquired with capabilities to generate a good deal of the cost and analytical data required, and while the data is now being collected, actual investigation or review has not yet commenced.

  Curriculum: We recommended the need for a more meaningful review of new courses, and the monitoring of existing ones to ensure consistency among schools. The Department has since initiated various procedures requiring departmental review and approval of courses, and with the full implementation of the Community College concept there is to be a greater rationalization of courses and standardization of admission procedures and other improvements.

  Human resources management: Information is now available on many aspects of human resources including inventory of personnel skills, and the introduction of substantial increases in technical training and updates. The implementation of a formal performance evaluation process is not being proceeded with.

Facilities and materiel management: Information is being gathered and costs developed on square footage, with a view to developing standards to enhance control over costs.

- **Finance: Provincial Tax Commission** — The Provincial Tax Commission, within the Department of Finance, comprises two divisions: Gasoline and Diesel Oil Tax Division, and the Health Services Tax Division. In 1987, we conducted a review of the activities of the Health Services Tax Division, with the objective being to determine whether there were adequate systems and controls to ensure a complete and accurate collection and recording of tax revenues.

  This year's follow-up review indicated:

  — major improvements in the area of account monitoring;

  — a reduction in the timeliness of the appeal process on health services taxes since the conclusion of our last audit;

  — shortcomings with respect to the reconciliation of revenues collected by the Registry of Motor Vehicles with amounts subsequently credited to the Health Services Tax Division (problems directly related to the difficulties encountered in implementing the new computerized vehicle registration system at the Registry); and

  — systems and controls at the Gasoline and Diesel Oil Tax Division were adequate with respect to receiving, and monitoring taxes.

- **Health and Fitness: Medical Services Insurance** — In 1987, we performed an extensive examination of the administration of the Medical Services Insurance Program by Maritime Medical Care Corporation. In our 1987 Annual Report there were audit findings and conclusions relating to the allocation of expenses between the insurance program and the Corporation's private sector business; control standards in their computer operation; controls over the receipt, assessment and payment of claims; the audit of claims processed; and internal audit.

Our follow-up review in 1988 indicated that:

— positive action was taken to implement recommendations concerning equipment acquisitions and control standards for computer systems;

— improvements were made in the claims audit function, and there was documentation of audit guidelines and results; and

— arrangements have been finalized to introduce an internal audit function April 1, 1989.

During 1988 we reviewed some additional aspects of administration of the claims process. On the basis of this review, it is our contention that the Corporation does not have what we would consider adequate guidelines and standards to deal effectively with certain aspects of claims administration. It is also our view that the Corporation and its Review Committee should be provided with enhanced staffing resources for audit and investigative matters. Both of these items are under consideration by the Corporation and the Health Services and Insurance Commission.

Other Audit Observations

The audits performed by this Office during the year, tabulated in Appendices II and III, include 42 audits in 20 departments, and 28 financial statement opinion audits. This section of the Report may be termed "reporting by exception", discussed briefly in the Introduction. Some of the more significant matters from among the other audit observations follow.

Accounting Function Performance — During 1987, we found the degree of readiness by clients for our financial statement audits to be unsatisfactory in a number of cases. As a result, we encountered substantial time overruns on certain audits, and had to defer or cancel other planned audits of a discretionary nature. There was a vast improvement in the state of readiness for the 1988 financial statement audits, attributable to management and accounting staff being better prepared for the audits, and more fully recognizing their responsibilities in this connection.

Canada-Nova Scotia Development Fund — In view of the controversary and publicity associated with an article in the 1988 Annual Report of the Auditor General of Canada on the management of Federal-Provincial Contribution Programs by the Department of Energy, Mines and Resources, and in particular the Canada-Nova Scotia Development Fund, we have included a detailed commentary in this Annual Report for several reasons.

Our Office had considerable discussion and correspondence with the Office of the Auditor General of Canada regarding two projects under the Vocational Training Assistance Program.

We concluded that the amounts claimed by the Province and paid to it by the Government of Canada, for costs of the Institutes of Technology and the Vocational Schools under this program, were appropriate and in accordance with the terms of the cost-sharing agreements.

In our view, shared by others, there are two paragraphs in the Federal Report which seem to indicate that claims were made and payments received by the Province to which it was not entitled under the approved project agreements. In our view, this misrepresents the situation, because based on appropriate audit procedures we performed, and supported by the Audit Services Bureau of the Federal Department of Supply and Services, there were no overclaims or overpayments.

Computer Related Audits — The results of our audit work on computerized information system controls are to be found in several articles in the Report, in addition to this one. In 1987 we conducted a government-wide assignment to assess controls in the areas of password access security, and disaster recovery and contingency planning. Overall, we concluded that considering the nature and size of the computer operation at the various sites, the information system controls in the two areas were reasonable. We made a total of 84 recommendations to the individual departments and agencies as a result of last year's audit.

During 1988 we completed a follow-up review in which management for each site covered in the 1987 assignment was requested for current information relating to the prior year's recommendations. We found that improvements had been implemented or planned for 41 of the recommendations, for 13 no changes are practical or cost-effective at this time, and no action has been taken or planned for the remaining 30.

We had also recommended that the Province consider the appropriateness of developing information systems control guidelines on a government-wide basis. Management Board, through its EDP Advisory Committee, is in the process of updating the Government Systems Overview in its Management Manual 302. The revised security section of the Manual, although it does not include all the control objectives and standards we had suggested, is a positive initiative towards government-wide information systems control guidelines.

Finance: Trusts and Debt Management — We performed an evaluation of the investment management and debenture administration computerized information systems of the Department of Finance's Trusts and Debt Management Division. This was our first review of the systems since they had been computerized.

Overall, we concluded that the application processing control procedures were adequate. Regarding certain general environmental controls, we noted areas where improvements should be considered, and made recommendations regarding password access security controls, controls over production systems, and disaster recovery and contingency planning.

Provincial Data Centre: Password Access Security — We completed a preliminary review of the Access Control Facility (ACF2) security package used by the Department of Government Services, Systems and Computer Services Division at the Provincial Data Centre. ACF2 provides the primary password access security over the information systems and resources at the Data Centre. It provides access control over both on-line and batch processing, and interfaces with a number of other security packages and customized programs used to control user access to specific information systems.

Our overall conclusion is that the installation and administration of ACF2 results in a reasonable level of access security. However, we have made recommendations for improvement to administrative policies and procedures which, in our view, will enhance the level of control in this area.

Reservations of Opinion — In 1986 and 1987 there were two entities for which I was unable to express an unqualified audit opinion on their year-end financial statements. These were the Public Trustee and the Victoria General Hospital. In each case there has been sufficient improvement in the administration of the accounting function and

matters relating to their March 31, 1988 financial statements, to enable me to provide an unqualified audit opinion.

This year, in auditing departments, we encountered situations where the systems and procedures were deficient to the extent that reporting is required under Section 7 (b) and (d) of the Auditor General Act. These were:

— the Department of Finance, concerning the adequacy of controls over corporation capital tax, and Canada Savings Bonds;

— the Department of Government Services, concerning billings, controls over accounts receivable and cash receipts, and the systems and controls related to the Province's capital assets; and

— the Department of Transportation and Communications, concerning weaknesses in the non-Civil Service payroll system relating to non-certified employees, due to the high concentration of duties exercised by the area foremen who perform incompatable duties from a control standpoint.

Although the weaknesses were of sufficient magnitude for this Office to issue qualified audit opinions concerning the adequacy of the controls in the three Departments, it should be noted that in each case the Department has initiated corrective action or plans to do so where possible to remedy these control weaknesses.

Status Prior Years' Observations and Recommendations

This section is a tabulation of observations and recommendations still outstanding from our Reports for the years 1981 to 1987 inclusive. It is worth noting that 26 items from both last year's status report and the articles in our 1987 Report have been acted on. There are 23 items for which the comments still apply, and/or the recommendation has not been implemented.

Office of the Auditor General

This section includes information on staffing, financial results, various professional and training activities, and other related matters pertaining to the Office.

There is commentary relating to initiatives taken to improve both the efficiency and effectiveness of our audit work relating to financial statement opinion audits and departmental audits. These initiatives have included in-depth studies by an outside consultant, and by our own staff as well as consultations with other legislative audit offices, principally Ontario. To date the results have been positive, and we anticipate further improvements from these efforts.

Appendices

Appendix I reproduces certain relevant sections of the Auditor General Act, namely Sections 7, 8, 14, and 16. Appendices II, III, and IV tabulate the audits done by this Office, and those performed by private sector auditors.

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AUDIT RESPONSIBILITIES

Role and Responsibilities of Auditor General

Introduction

In this year's Report, I again include an extensive description of the role and responsibilities of the Auditor General, and the auditing environment within which the Office functions. This is done for several reasons.

Primarily, it is to provide greater understanding of what this Office does and should do in fulfilling its mandated responsibilities. The description of the functions performed by internal auditors and external auditors in comparison to ours should help to explain their respective roles. An appreciation of certain proposed amendments to the Auditor General Act should be enhanced by this presentation. Finally, and perhaps most significantly, this description will strengthen an understanding of the accountability process in Government, a topic dealt with separately in the following section of this Report.

To provide this broader coverage, four topics are addressed.

Role of the Auditor General
Independence of the Auditor General
Participants in the Audit Process
The Auditor General Act

Role of the Auditor General

Objectives — The primary objective of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

To achieve this objective, the Auditor General examines the accounts of the Province and presents an Annual Report to the Legislature. This Report is then discussed with the Legislature's Public Accounts Committee.

A secondary objective of the Auditor General is to assist Deputy Ministers and agency heads in holding their administrators accountable

to them, by reporting on the quality of the stewardship of public funds in the department or agency.

This objective is not stated in the Auditor General Act, but it is a logical extension of our primary objective. It is achieved when we report to the Deputy Minister or agency head at the conclusion of an audit. These reports include assessments of the significant areas audited, as well as our recommendations for improvement.

Activities — The audits performed by this Office fall into three categories — attest, compliance, and broad scope.

Attest Audits

Attest or financial statement audits are the ones with which the general public is most familiar. They involve the expression of an opinion on a set of financial statements as to whether the results of operations and financial position of the entity have been fairly presented in accordance with its stated accounting policies, and whether such policies are consistent with those used in the previous year.

An important aspect of attest audit work is the study and evaluation of internal controls. Internal controls are the systems and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. Section 7 of the Auditor General Act (reproduced in Appendix I) gives the Auditor General responsibility for ascertaining whether essential records are maintained and procedures are applied regarding revenues and expenditures, and the safeguarding of public property.

We assess the internal controls in government departments, although the attest audit opinion on the Public Accounts is given by a firm of private sector auditors. The Auditor General also expresses an opinion on the financial statements of numerous crown agencies and funds (see Appendix III).

Compliance Audits

Audits are performed in government departments and crown agencies to assess whether transactions and other aspects of operations comply with legislative and other requirements. These include Provincial Acts, Regulations of Government, Management Board policies, and directives of the departments and agencies.

These audits, performed on a cyclical basis, comprise a significant portion of our annual audit activities. Sections 7 and 16 of the Auditor General Act assign the Auditor General responsibility for conducting compliance audits.

Broad Scope Audits

Broad scope audits focus on the actual management of a functional area, including programs and projects. More specifically, these audits are designed to determine whether:

— the program or activity under review is economically administered, with goods or services being obtained in the proper quantities at the proper times and at economical prices;

— the work is performed efficiently making the best use of available human and material resources;

— reasonable attempts are made to measure and report on program results; and

— appropriate and timely information is available to management for decision-making purposes.

It is important to note that the Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These functions should be performed by management of the department or agency. The Office assesses the extent to which management has carried out these functions.

Such audits have been conducted regularly by this Office, and several are reported upon in this Report. They include three distinct types of audit:

— an in-depth review of a given activity or program within a department (e.g. Property Management, page 135);

— a government-wide review of an activity or function (e.g. Departmental Annual Reports, page 126); and

— an evaluation of certain aspects of the management of a crown corporation (e.g. Nova Scotia Power Corporation, page 91).

Reporting Process — The annual reporting responsibility of the Auditor General to the House of Assembly is set forth in Section 8 of the Auditor General Act, reproduced in Appendix I.

The Public Accounts are tabled in the House of Assembly in accordance with provisions of the Provincial Finance Act, no later than the tenth day of sitting. The Auditor General's Annual Report is tabled on a day following this, usually in the third or fourth week of the Session. Subsequent to its tabling, the Report is discussed with the Public Accounts Committee, whose meetings are open to the general public.

A secondary objective of our work is to assist Deputy Ministers and agency heads in holding their administrations accountable to them. This goal is accomplished by issuing reports at the completion of all departmental and agency audits.

At the conclusion of each audit, the reporting process normally involves:

- discussing the draft report with senior officials of the department or agency;
- revising the draft report, resulting from this discussion or from review by senior management in our Office;
- issuing the final report to the department's Deputy Minister or, in the case of agencies, to the agency head and the Minister in charge of the agency; and
- further discussion of the report if requested by the department or agency.

The findings, observations, conclusions and recommendations included in the various articles in this Annual Report relating to specific departmental, crown agency, and government-wide audits are derived from previously issued audit reports.

Independence of the Auditor General

To enhance the independence of the position of the Auditor General, I have repeated certain suggested revisions to the Auditor General Act. These are presented in a section on the Act, beginning on page 36.

The Auditor General must be perceived to be independent from all sources of bias and interference by those who are affected by the Office's work. To ensure such independence, the Legislature has enacted the Auditor General Act to set out the mandate of the Auditor General. He is appointed by the Governor in Council, and may be removed upon the passing of a resolution to do so by the Legislature, carried by a vote of two-thirds of the Members voting on it.

Administratively, the Office of the Auditor General is separate from all government departments and crown agencies. However, the resource requirements of the Office are subject to approval by Management Board, Executive Council and the Legislature.

Only if the Auditor General is truly independent of the Government will he be able to fulfill the role described above and report objectively to the Legislature. If the audit reports or the work underlying them are constrained in any way by the administration, the Legislature cannot be confident that it has been given the proper tools with which to hold the Government accountable.

Participants in the Audit Process

Internal auditors, private auditing firms (commonly referred to as public accounting firms), and the Auditor General participate in the audit process within government departments and crown agencies. A brief description of the role of each follows.

Internal Auditors

Internal auditors perform audits in their respective departments and agencies on behalf of management. Their responsibilities include auditing both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability. To avoid duplication of effort, the Office relies wherever possible on department and agency internal auditors.

Internal auditors are employees of the department or agency, and support management by helping to ensure that control procedures are reliable. They generally report to the respective department head and

the deputy minister or, in the case of a crown agency, to the agency head.

Private auditing firms

There are crown agencies and corporations whose annual financial statement audit is performed by a chartered accountant other than the Auditor General. Appendix IV schedules these.

Under Section 16 of the Auditor General Act, I am provided annually with the audited financial statements, and all reports to management prepared by their auditors. A summary of our review of these reports (usually termed management letters) is found in the article on page 80.

Also, the Act provides that our Office may conduct such additional examination and investigation of the records and operations of the agency as we deem necessary. Since this provision was enacted in 1973, it has not been possible to conduct reviews in all these agencies and corporations. In 1985, we prepared a five-year plan providing for a minimum of one audit examination in each crown agency and corporation during that period. During 1988 three such examinations were completed, and these are reported upon separately beginning on page 91.

Nova Scotia is the only province in Canada which engages a public accounting firm to attest to its financial statements. Although our Office does not have the responsibility for expressing a formal audit opinion on the Province's financial statements, we do review them. On the basis of this review, we have stated in our Annual Reports since 1983 that the financial statements are an appropriate presentation of the Province's financial position and operating results.

Auditor General

Sections 7 and 8 of the Auditor General Act contain the basic auditing and reporting responsibilities of the Auditor General. These Sections are summarized on pages 37 and 38, and reproduced in Appendix I.

The fundamental distinction between the Auditor General and the two other types of auditors is that he is a servant of the House of Assembly. Not only are his rights, duties and responsibilities enunciated in legislation, but he is required to report annually to the House and meet with a standing committee of it.

This process is part of the British parliamentary system, found in all Canadian provinces and at the federal level, as well as in most other democracies. Over a century old, it is an essential part of the accountability process for a democratic government.

Auditor General Act

The Auditor General Act was proclaimed in 1973, and minor revisions were made in 1976. In August 1987, I presented Government with a formal submission containing proposed amendments to the Act, together with explanatory and supportive comments. The Government, in response to this submission, prepared and presented to the House significant amendments to the Act. These were passed in the spring 1988 sitting of the House and became effective June 1, 1988.

The amendments covered three principal areas. Perhaps the most significant of these was the authorization to audit the accounts of those to whom government grants and other assistance have been provided. Since nearly 70% of the Province's expenditures are for grants and assistance provided individuals, institutions, corporations and organizations, the opportunity to review the recipients' use of these transfer payments is essential. A further discussion of the Office's plans with respect to fulfilling this audit mandate will be found beginning on page 215.

A second amendment to the Act gave the Auditor General the responsibility to report all instances in which expenditures are not made with due regard for economy or efficiency. These are two of the three segments of what is better known as value-for-money auditing. The third segment refers to the auditing of systems that measure and report upon the effectiveness of expenditures. This third provision, found in several other legislative audit acts in Canada, has not been included in the Nova Scotia Auditor General Act.

Other minor amendments to the Act, of a housekeeping nature, reflect contemporary legislative requirements.

I am extremely grateful to the Members of the House of Assembly, for having considered and passed these amendments. Members from all three recognized parties spoke in favour of the proposed amendments, and I am grateful for this unanimity.

Unfortunately two areas in which I had proposed amendments were not included in the 1988 revisions to the Auditor General Act. One of these dealt with what I consider to be requisite legislative provision for a greater degree of independence relating to this Office. In particular, the appointment of both the Auditor General and the Deputy Auditor General should, in my view, have a degree of participation by some type of all-party representation. In addition, it would seem that there should be provision for a Committee of the House, rather than the Government, to have exclusive jurisdiction in administrative, budgetary and related matters to ensure that the independence and proper functioning of the Office are not impaired.

The second revision I recommended refers to the responsibility for the audit opinion on the financial statements of the Province. Nova Scotia is the only province in Canada which engages a private accounting firm to attest to its financial statements. This responsibility should be assumed by our Office for a variety of reasons. Currently there is an unwarranted duplication of audit effort and unnecessary additional audit costs. Moreover, it is my contention that a more independent accounting to the Legislature would be provided by having the Office of the Auditor General perform this audit responsibility.

Scope of Audit Examinations

The responsibilities for audit in Section 7 of the Auditor General Act state that the Auditor General is required to examine, in such manner and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

- all public money has been fully accounted for;
- money has been expended for the purpose for which it was appropriated by the Legislature;
- money has been expended without due regard to economy or efficiency;
- the accounts have been properly kept; and
- essential records and procedures are maintained to safeguard and control public property.

The reporting provisions of Section 8 state that there must be brought to the attention of the House every case where:

- any person has wilfully or negligently omitted to collect or receive money belonging to the Province;
- public money was not fully accounted for and paid into the Consolidated Fund;
- any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;
- an expenditure was not authorized or properly vouched or certified;
- there has been a deficiency or loss through fraud, default or mistake of any person;
- a special warrant authorized the payment of money;
- money has not been expended with due regard to economy and efficiency; and
- any other case that the Auditor General considers should be brought to the notice of the House.

Sections 7 and 8 of the Auditor General Act are reproduced in Appendix I of this Report. In addition, Section 14 regarding special audits of recipients of financial assistance from Government, enacted effective June 1, 1988, is included in Appendix I.

The scope of the audit activity for this Office may be classified under five distinct headings, each of which is described below:

1) *Auditor General Act, Section 7 Requirement*

To meet the legislated requirements of Section 7, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, accounting records, and other supporting evidence.

All systems in every department are not subject to annual audit. Although the audit work undertaken is selective, it encompasses sufficient activity in major departments to fulfill the mandate prescribed in Section 7.

To provide a perspective regarding the extent of the Office's auditing in the departments of government, a listing of 42 audits in 20 departments performed in the past year is in Appendix II of this Report.

Those topics reported in "Other Audit Observations", beginning on page 172, represent matters from the audits on this listing for which there is a reporting requirement under the Auditor General Act. Comparison of the number of topics dealt with in this Report with the number of audits performed will indicate that only a small portion resulted in findings having to be reported to the House.

2) *Audits of Crown Agencies*

The Auditor General is the auditor of 28 crown corporations, boards, commissions, and funds. These appointments flow from the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix III of this Report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations whose annual audit is performed by a chartered accountant other than the Auditor General. A schedule of these may be found as Appendix IV.

The Auditor General Act provides that our Office be furnished annually with both the audited financial statements, and all reports prepared by the auditors of these agencies and corporations. We review these audited financial statements, and the management letters or reports from the entities' auditors. The results of this review are included in an article on page 80.

Further provisions of Section 16 of the Act (see Appendix I) empower our Office to conduct such additional examination and investigation of the records and operations of crown agencies as we deem necessary. This we attempt to do cyclically, at least once every five years.

During 1988, examinations were completed at Nova Scotia Power Corporation and Trade Centre Limited. As well, a follow-up to our 1985 audit of the Workers' Compensation Board was completed. These are reported upon separately, beginning on page 91.

4) *Other Audit Assignments*

In addition to examinations performed under the Section 16 mandate, we usually conduct one or more special audit reviews of departments, crown agencies, or corporations under Section 7 of the Auditor General Act. These assignments may be an in-depth review of a given segment or program of a department or agency, or the review of a function that is performed in several departments, referred to as a government-wide or horizontal study.

Eight such assignments were performed in the current year, each of which is presented in this Report.

Department of Attorney General
Provincial Judges and Prothonotaries (page 115)

Department of Community Services
Homes for Special Care (page 120)

Departmental Annual Reports
A Government-wide review (page 126)

Department of Government Services
Property Management (page 135)

Department of Lands and Forests
Nurseries and Air Services (page 148)

Nova Scotia Business Capital Corporation
Receiverships (page 151)

Result Indicators
A Government-wide review (page 162)

Department of Tourism and Culture
Grants and Inspection Services (page 168)

In addition we performed updates to three previous audit assignments.

Department of Advanced Education and Job Training
Vocational Schools (page 111)

Department of Finance
Provincial Tax Commission (page 132)

Department of Health and Fitness
Medical Services Insurance (page 146)

5) *Federal Provincial Cost-Sharing Claims*

Our Office has the responsibility to certify claims for various cost-sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1988, a total of 620 claims were audited, relating to 20 separate agreements involving 150 projects.

It is our responsibility to determine that the departments concerned have complied with the terms of the agreements, and that the amounts claimed are in accordance with the agreements.

In view of the controversy surrounding grants under the Canada-Nova Scotia Development Fund, I have included an article describing the audit role assumed by my Office concerning certain claims on this Fund. The article is on page 174.

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ACCOUNTABILITY AND MANAGEMENT

The Accountability Process

Introduction

Over the past several years my Annual Reports have discussed the accountability process, explaining its components, and giving a perspective on how the audit function fits into this process. Again, this Report comments on the three principal components: the Estimates, the Public Accounts, and the Public Accounts Committee. As well, there is a discussion of the audit function — supplemented by the expanded coverage of the role and responsibilities of the Auditor General (page 30), started in last year's Annual Report.

There is an emerging demand for greater accountability on the part of those entrusted with management of resources, whether they be in government or the private sector. When one considers that accountability is the obligation to answer for a responsibility conferred, it can be appreciated why, with accelerating demands on fewer available resources, this demand is emerging. This year's Report includes two articles which in some respects have a more direct bearing on accountability than many of the others. These are the article on Boards and Commissions (page 83), and the one on Departmental Annual Reports (page 126). In each case, certain of the observations and ensuing recommendations which we have to offer are directed towards those for whom there is a very real accountability responsibility.

It should be understood that, although there is a discussion of the role of audit in this article on accountability, audit is not really part of the process. Rather it is superimposed on the process to provide an objective evaluation of assertions on performance by those being held to account. Unfortunately, in many instances, the role of audit has become greater than it should be, because management has either not been in a position to, or has opted not to, express a clear and complete statement on its performance. Accountability is an evolving area. The ultimate goal is to develop to the point where those held accountable are capable and willing to enunciate their performance assessments or assertions. The audit function would then become more one of attesting to the veracity of these assertions.

By way of further introduction to this topic, it should be emphasized that accountability is not audit. Rather, it is accounting for one's

responsibilities, both financial and non-financial, in a process which should include a statement of:

- objectives for all major programs, and how they will be achieved;
- resources required to fulfill these objectives, not only now, but over the life cycle of the programs;
- controls required to ensure achievement of the objectives in a cost-effective manner, and whether these are in place; and
- the actual results, including an appropriate explanation for significant deviations from the original objectives.

Certain of the matters noted in the above tabulation will be dealt with briefly in the following paragraphs.

A recent expansion of the Auditor General mandate to include the examination of the operations of those receiving government assistance is an effort by Government to improve accountability. Our Office will encourage the development of management and information practices that will improve the process of resource management. The entire process from objectives setting through to evaluation of results should be done not by an auditor, but by those actually responsible for managing the resource.

Estimates

The Estimates are the first step in the accountability process and, as the foundation for the other stages, may well be considered the most important. The Estimates summarize the Government's financial plan for the fiscal year and include revenue, operating, and capital expenditure programs. They are presented to the House for debate and vote, and included each year in the annual Statutes.

I have commended the Government in previous Annual Reports for its logical, well-organized budget submission, and do so again this year. The submission is presented in a format which began with the 1980-81 Estimates under the then recently developed Management Planning and Budgeting System. The Estimates contain, by department, both revenue

and expenditure detail, and a brief description of the many activities and programs which each department administers.

There are two references elsewhere in this Report to the Estimates process. One is in the article on Financial Position and Operating Results (page 62) in which it is noted that the actual expenditures for the year were .2% less than the original Estimates, a highly satisfactory condition. Second, is the article on Additional Appropriations on page 73, which indicates that two departments were required to process additional appropriations for expenditures, which realistically should have been anticipated and reflected in the original Estimates.

In mid-1988, the Canadian Council of Public Accounts Committees released a study entitled "Guidelines for Public Accounts Committees in Canada". This study was prepared by a sub-committee of the Council for presentation at its July 1988 Conference, with a view to further discussion leading to the preparation and release of a final report. The study states that *"In recent years, Public Accounts Committees and other legislative bodies have expressed growing concern about perceived weaknesses in the Estimates process, and the impact of these weaknesses on the overall accountability cycle".* This comment references two recent studies conducted in Ontario and the Federal Government by their Public Accounts Committees.

I do not believe it is incumbent upon me to express a point of view on certain of the observations or recommendations made, other than to suggest that our Province's Public Accounts Committee might want to review these studies. Many issues are raised such as: available time by legislators to review Estimates; the use of Select Committees for this review; the cycling of in-depth reviews; and other related matters — all in the context of remedying weaknesses in this key accountability function as perceived by members of two legislative bodies.

An additional matter, relating indirectly to the Estimates, is the use of performance or result indicators as selected measures of the efficiency and/or effectiveness of programs and support activities. It has been the contention of this Office, formally expressed in several previous Annual Reports, that a greater use of result indicators should be made a part of the managerial process to facilitate improvements and productivity. Inasmuch as the accountability process should include statements of planning and controls, it would seem that, where practical, result indicators should be developed to provide a better degree of understanding of objectives, resource utilization and costs. Accordingly,

consideration must be given to a greater use of result indicators to supplement the Estimates.

Public Accounts

The Public Accounts, as the Government's Annual Report on its financial stewardship, include financial statements for the fiscal year for the Province, as well as for crown agencies, corporations and funds; details on departmental expenditures and recoveries by principal function and program; and a supplementary volume detailing information on various departmental expenditures.

Although our Office does not have the responsibility for expressing a formal audit opinion on the fairness of the Province's financial statements, we do review them. Our Annual Reports over the last several years have described any inappropriate accounting or disclosure practices. In spite of taking a slightly different point of view on the manner of accounting for and disclosing certain items, we believe that the audited financial statements for the current year are an appropriate presentation of the Province's financial position and its operating results.

In 1981, the Canadian Institute of Chartered Accountants set up the Public Sector Accounting and Audit Committee, to develop standards to improve accounting and disclosure practices, as well as auditing standards, at all levels of Government (principally at the Provincial and Federal Government levels to date). Committee membership comprises senior representatives from all three levels of government, both private sector and government auditing communities and, to a lesser extent, private commercial and industrial sectors and the university community. To date, the Committee has issued a series of accounting and auditing statements for the public sector, and is currently working on others.

As a result of the initiatives of this Committee, there is a greater awareness of the need for better financial reporting by elected representatives, senior management and audit communities associated with government. As well, there has been a marked improvement in the presentation of the Public Accounts of the various provincial jurisdictions in Canada. Some legislative auditors have included in their Annual Reports, a tabulation of compliance by their respective governments with provisions of these standards, particularly Accounting Statement Number 3, which contains 35 recommendations for accounting policies and disclosure.

I have opted not to include such a tabulation in my Annual Report for two reasons. First, I do not have the prime audit responsibility for expressing an opinion on the Public Accounts of the Province and, accordingly, I am not sure it is my responsibility unless there were significant departures from reasonable accounting and disclosure practices (as there were for the audited financial statements in the Public Accounts for 1980 and 1981). Secondly, I am satisfied that the Public Accounts present fairly the financial position and operating results of the Province, as indicated previously, even though there are three departures which I have noted in the past and repeat this year.

The following depart from, what I would consider to be, appropriate accounting and financial statement disclosure recommendations of the Public Sector Auditing and Accounting Committee Statement Number 3.

- Certain assets, such as inventories and assets of a non-realizable nature, are being included in the Statement of Financial Position as assets, whereas the Committee recommends to the contrary.

- The Statement of Current Revenue and Expenditure does not include capital expenditures, a practice recommended by the Committee and now followed by most other provinces. This does not misstate the final results of the year's operations, as they effect net debt and net cash requirements in the Province's financial statements. This is because in the Statement of Consolidated Fund Transactions, and the Statement of Changes in Net Direct Debt, both current and capital expenditures are reflected.

- The Statement of Changes in Net Direct Debt has until this year included some items which in most jurisdictions were classified as current operating expenditures. The only one still included in this Statement, which should in our view be shown otherwise, is the increase in the deficiency of net assets of Sydney Steel Corporation.

Two statements were issued by the Public Sector Accounting and Auditing Committee in late 1988. One is related to accounting for pension costs and liabilities, and the other to the reporting entity that should be reflected in government financial statements; that is,the extent to which other organizations such as crown corporations should have their financial results consolidated with those of a province.

For certain of the recommendations in these two statements, there is still some difference of opinion on the part of senior government financial officials and some legislative auditors. Accordingly, many in the government auditing and accounting communities will be very interested in how completely the Committee's recommendations can or will be implemented. My own view is that although Nova Scotia does not meet some of the recommendations in these two studies, its current accounting and disclosure practices are reasonable and need not be significantly altered at this point in time.

With respect to disclosure of results as an integral part of the accountability process, two items are worth noting. For the first time, this year the Public Accounts of the Province will contain a full set of financial statements for the Victoria General Hospital, which is one of the largest crown agencies in the Province. Our Office has been strongly recommending this for a number of years, but unfortunately until now the Hospital's accounting and management staff did not react positively to this recommendation. In addition, during the past year, we performed a review of departmental annual reports, and the results of this audit are reported upon separately in an article on page 126.

Audit

To reiterate what was expressed in the introduction to this article, the audit function, although closely associated with and often described as part of the accountability process, is in fact a function which is superimposed upon the process. It provides an independent and objective point of view on statements of performance and associated information generated by those who have an accountability responsibility to fulfill. Much of the discussion associated with expenditures being made with due regard for value for money has centered upon the auditing for value for money. As a result, many have concluded that it is the responsibility of the auditor to provide the statement of accountability. Rather, this statement should originate with those responsible for the management and administration of resources, a statement to which the auditor should be attesting. Unfortunately, until management and the governing bodies to whom management reports develop processes for managers to adequately convey their accountability, the option of having auditors provide the accountability statements will maintain.

Recently, the audit community and public and private sector managers have been reacting to the need for a more appropriate

accountability relationship, by having management create better means of accountability disclosure. Their efforts are to be supported, as the legislative audit community is anxious to fulfill more of an attestation role, rather than one of providing the actual accounting for performance.

The role of this Office in fulfilling its various legislated and appointed audit mandates is described more fully in a previous section of this Report, entitled Role and Responsibilities of Auditor General. This section was introduced in our 1987 Report, to furnish a brief but comprehensive overview of the audit activities performed.

The largest segment of government expenditures is transfer payments in the form of grants and assistance, and these amount to about 70% of total current expenditures. To improve the accountability process, the Auditor General Act was amended in 1988 to provide for an examination by the Auditor General of the recipients of government assistance and grants. Previously there was no provision for such audit activity, although this Office has been suggesting for several years that this mandate be introduced.

I am pleased that Members of the House of Assembly, recognizing this deficiency in the accountability framework, have seen fit to amend the Act. It is hoped that our Office in its audit reviews in this area can facilitate the implementation of a satisfactory accountability framework for this segment of government expenditures.

To fulfill its audit mandate with confidence and objectivity, an Office such as ours must have a degree of independence commensurate with the responsibilities assigned to it. This year, I am repeating two recommendations concerning independence, which involve further amendments to the Auditor General Act. These relate to the appointment of the Auditor General and Deputy Auditor General; and the review and approval of the budget and related activities of the Office, by a group which has a degree of all-party representation. It is interesting to note that there is a recommendation contained in the previously mentioned "Guidelines for Public Accounts Committees in Canada", which suggests that Public Accounts Committees should have the right to provide parliamentary scrutiny of the auditor's office by: reviewing the estimates of the office; reviewing the expenditures and the accounts of the auditor; and having input into the selection of the auditor.

Public Accounts Committee

It might be useful to quote from the Canadian Council of Public Accounts Committees' "Guidelines for Public Accounts Committees in Canada" which, in connection with accountability, has two statements to make: *"The process of spending and accounting for public money begins and ends in the Legislature. The final link in this process is provided by the Public Accounts Committee."* and *"Parliament has given the Public Accounts Committees the responsibility to hold government accountable for their management of the public purse, a task which must be accomplished if the parliamentary system is to be maintained in its present form."*

Another relevant quotation from this study regarding the role of a Public Accounts Committee (PAC) is: *"As legislators, all Members of the PAC are pursuing common goals: to ensure that Government complied with the wishes and authorizations of the Legislature, to obtain maximum value-for-money from government expenditures, and to ensure that government policy is implemented as effectively as possible."* And further: *"The scope of the PAC's work is normally defined by the two major accountability documents which are referred to it by the House or by legislation: the Public Accounts, summarizing Government's total expenditures, and the auditor's report, highlighting particular instances of maladministration. The contents of these documents critically influences the extent to which the PAC can hold the Government to account. As such the reforms of the past decade and the mandates of many auditors have substantially expanded the scope of the PAC's work."*

The Report discusses the move to value-for-money auditing and that it has not been without controversy, with some resistance experienced from government agencies and other critics. It was feared that these audits would go beyond auditing the measurement of effectiveness to assessing the effectiveness of the programs themselves. It was argued that this would cross the line from administration to policy, and blur the distinction between the role of the auditor on the one hand, and the manager and evaluation staff on the other. It was noted that the auditing profession is seeking to address these concerns, primarily through the efforts of the Canadian Comprehensive Auditing Foundation, and that recent work of the Foundation responds to these concerns.

The Public Accounts Committee in Nova Scotia has functioned in a reasonably effective manner in recent years, considering the fact that most of its meetings are held in the same time period as the House of Assembly is sitting. Accordingly, the opportunity for Members of this Committee to devote as much time to its requirements as they would like, is considerably impaired. Over the past two years there have been several significant changes for the Committee, namely the appointment of an Opposition Member as Chairman, scheduling some meetings other than when the House is sitting, and the preparation of an Annual Report. Members of the Committee might want to review the recommendations of the study prepared by the Canadian Council. This study is not only contemporary, but quite complete in its coverage of matters relating to the operation of a Public Accounts Committee. It covers history and development, role, responsibilities, rights, membership, resources, Chairman, Vice-Chairman, Steering Committee, meetings and procedures, committee reports and follow-up.

There have been two administrative matters mentioned in previous Annual Reports which I think would enhance the Committee's performance. One is a more formal enunciation of the role and responsibilities of the Committee, and the other is the use of more formal agendas, in order to promote a greater understanding of and a degree of preparation for issues being discussed. Both of these matters are recommended in the Council's Guideline Study.

It has been noted that the Nova Scotia Committee reintroduced Annual Reports, which have been produced for each of the last two years. These reports have done an excellent job in presenting the schedule of witnesses, topics discussed, and questions posed by Members of the Committee. However, a perusal of the Canadian Council's guidelines indicate several other key areas which are suggested for inclusion in a Committee's Annual Report. These are:

— recommendations which, it is noted, are the most important part of the Committee's Report;

— follow-up activities, to indicate action taken with respect to previous recommendations of the Committee;

— role and operations of the Committee, to enunciate the Committee's mandate and its procedures and operations; and

— relationship with the Auditor General, to indicate its relationship with the auditor and the input received from him for the Committee's work.

Concluding Remarks

Although the foregoing treatment of the accountability process, a topic I have discussed for five consecutive years, might appear to be unwarranted repetition of a mundane topic — I think it important to recognize that "accountability" must be considered one of the basic foundations of democratic government.

The demands for greater and better accountability have grown substantially in recent years and will continue to evolve. Accordingly, every effort must be made by all participants in the accountability process — governing bodies, managers of government resources, and auditors — to identify the specific requirements for better accountability and to implement necessary improvements in the process.

Management of Government Resources

Introduction

In our 1986 Annual Report, we introduced a section on Management of Government Resources for two reasons. One was the desire to highlight the management implications of certain audit observations that year. The other was the belief that following an article on accountability, it would be appropriate to introduce some considerations relating to how well Government resources were being managed. In each of the past two years, these articles have referred to initiatives taken by Government to improve the management of the resources for which it is responsible, relevant observations from recent studies by the Canadian Comprehensive Auditing Foundation, and suggestions from this Office based upon conclusions resulting from audits we performed.

Again this year, certain audits have demonstrated the need for more attention to be directed to basic management matters. Four of these are:

— Boards and Commissions (page 83), regarding the need for a greater degree of understanding of the role and responsibilities assigned to and assumed by Boards;

— Property Management (page 135), noting key administrative and policy issues which should be addressed;

— Receiverships (page 151), where there is a requirement for more careful monitoring and control of a significant financial outlay; and

— Result indicators (page 162), which points out the need for a greater use of this management technique.

In the concluding remarks on management of government resources in our 1986 Annual Report, it was suggested there was a need for policy statements in certain key areas, a need for functional guidance and support, and the creation of some type of monitoring or control mechanism to ensure all departments understand, are capable of implementing, and adhering to policy directives. We suggested that these responsibilities and overall surveillance be assumed by a central body, likely Management Board.

Although we have a very real responsibility to conduct our examinations in such a manner as to become aware of significant management deficiencies, and report these to the Legislature, it is my view that there should be a central government body with primary responsibility in this area. To those throughout government who have been given responsibility for the provision of services from the resources entrusted to them, there is a commensurate responsibility to ensure that their management of these resources is to acceptable standards.

Effective Management

Due to the heavy and increasing pressures on available resources, the Government embarked upon a three-year program of deficit reduction commencing with the 1987-88 fiscal year. In parallel with this initiative has been the continuing development of the Strategic Planning Process commenced in late 1986. The objectives of this process are to study program effectiveness and establish program priorities for better allocation of financial and staff resources.

Sound management will be critical to successful implementation of the deficit reduction program, and the Strategic Planning Process. Without a management framework which includes soundly based

policies with realistic and achievable goals and objectives, supported by a management structure which is able to organize effectively and control the administration and use of these resources, both these initiatives will not be easily achieved.

A contemporary recognition of the need for better management will be found in the September 1988 publication of The Nova Scotia Royal Commission on Health Care, entitled "Issues and Concerns". In this publication five global type issues were identified. Two of these, namely allocation and structural issues, are concerned primarily with the management process. It should be clearly understood that these are issues arising from public hearings and submissions, without recommendations from the Commission.

Some of the specific management matters presented to the Commission for review and recommendation were: the need for a sound planning process; policy direction; routine reviews for effectiveness; greater integration, cooperation and planning to overcome perceived fragmentation; organizational structure; decision making process; and rationalization and coordination. Merely to have these issues and concerns raised, for a service which presently costs over $1 billion annually, is indicative of the relevance of sound management practices to the provision of a basic government service.

It was five years ago, in 1983, that the Auditor General of Canada in his Annual Report had a chapter entitled "Constraints to Productive Management in the Public Service". Although concerned exclusively with matters at the Federal level, not necessarily fully applicable to a province such as ours, there were certain observations which are quite relevant. He stated that *"The role of Government is not going to become less important in our lives; the machinery of Government is not going to become less complex; the need to measure how economically, efficiently and effectively the departments and agencies of Government and the Crown owned corporations are achieving their objectives is not going to disappear. However difficult to achieve, the machinery for making these measures must be put in place."*

The basic thrust of his article was that there are serious constraints which make it difficult to improve productive management. These include political priorities having a major impact on productive management; management being burdened with many administrative and procedural tasks; and too few incentives and many disincentives for productive management. Nevertheless, he urged Government to

establish the core or critical mass of management talent it will require over the next 20 years. Improvement in productive management, as the study indicated, depends ultimately on people, and suggestions were made to encourage more productive management in the public sector.

Developments

It is difficult to isolate the topic of effectiveness from any consideration of management. In its study *"Effectiveness — Reporting and Auditing in the Public Sector"*, issued in 1987, the Canadian Comprehensive Auditing Foundation stated that effectiveness has been a central concern in all parts of the public sector. During the 1970's and 80's, the subject received a great deal of attention and a variety of initiatives were taken to come to grips with the many complex and sensitive issues that the concept of effectiveness raises. To date, experiences in dealing with these issues have produced somewhat disparate results.

The study continues by stating that Legislatures and other governing bodies need to be served with better information about effectiveness than they are now receiving, and, very significantly, that public sector managers are ready and willing to work within strong accountability regimes if the mechanisms used are practical and useful. The dissatisfaction with current approaches stems primarily from a continuing concern that a commonly accepted basis for understanding and reporting information on effectiveness has not evolved.

What is effectiveness? One perception is that the effectiveness question relates to "Are we achieving our objectives?". The study indicated that effectiveness is a complex concept, not susceptible to such a simple definition. It distilled effectiveness into a number of elements or attributes. Twelve attributes were identified: management direction; relevance; appropriateness; achievement of intended results; acceptance; secondary impact; costs and productivity; responsiveness; financial results; working environment; protection of assets; and monitoring and reporting.

Although this may appear, at first glance, to be a rather theoretical list of attributes, it is worth noting that in early 1988 the Standing Senate Committee on National Finance used them in its examination of the effectiveness of a program supporting medical, scientific, and social sciences and humanities research in the universities. Over a four-year

period the budgeted cost of the program was to exceed $2 billion. The Committee acknowledged that without a set of attributes such as this, its examination and evaluation of the program would not have been that meaningful. Applying the attributes to the results achieved, it was determined that there were significant deficiencies in the management of the program. A series of critical observations and meaningful recommendations were developed by the Committee for adoption by Government in supporting this program, and also for the recipients responsible for administration of it.

The foregoing has been described to show that those with a responsibility to examine the effectiveness of a program were able, with the application of this relatively new approach, to assess resource management quite meaningfully. Other instances have taken place, and more will, with increasing frequency.

In 1988, the Canadian Comprehensive Auditing Foundation released another study closly related to the matter of resource management. This one, *"Provincial Government Transfer Payments: Accountability and Audit"*, was concerned with the auditing of transfer payments which comprise approximately 70% of provincial government expenditures. Because transfer payments represent the largest financial demand on provincial treasuries, there was a clear perception that greater accountability for this segment should be achieved. Since Government is accountable for the taxes levied and/or debt incurred to fund these types of payments, it has a clear responsibility to see that the money is properly spent.

Acknowledging that financial statements alone do not satisfy accountability needs in the public sector, this study includes a tabulation of a number of key questions about accountability.

These questions relate to management matters, in an attempt to evaluate the soundness of the structure in place for the administration of transfer payment receipts. This is one further example that deficit control, accountability, and sound management practices are not mutually exclusive, but intertwined to the extent that deficit reduction can best be achieved if there is adequate accountability and management.

As we approach the 1990's, it is apparent to many that the greatest challenge facing Government is a fiscal challenge. This challenge can be met in a number of ways such as: downsizing government by

reducing the provision of certain services; increasing tax revenues; or, as many are proposing, a restructuring in order to provide basic services in both a more efficient and effective manner. This restructuring will require a great deal of modification of organizational structures and modes of service delivery; and the willingness to accept an accelerating rate of change.

Fundamental to all of this is a determination of those services which are essential as opposed to those which are desirable. This exercise will have to be rigorously pursued, not only for the services provided by government departments directly, but also by those in the education, health, social service, and other transfer payment recipient fields. All of this is directly related to strategic planning and the setting of priorities based upon what is essential, and the resources available to finance these essentials.

Concluding Remarks

It is my contention that more attention must be devoted to the actual management of resources at three different levels — in individual departments; in the context of overall government department operation; and by crown agencies and transfer payment recipients. Accountability or information flow has been primarily in the form of annual budgets and audited financial statements which, though essential from a fiscal point of view, concentrate on only one aspect of resource management. There has to be more accountability for the other segments of resource management, namely the economy, efficiency and particularly the effectiveness with which resources have been managed.

Several critical ingredients of a sound management resource program must be acknowledged, nurtured and developed, monitored and evaluated, if we are to achieve the type of management to which the taxpayer is entitled. These are:

— greater use of performance indicators or other means of evaluating the efficiency and especially the effectiveness of programs and projects;

— sound management development programs to facilitate the identification and growth of those who can manage; and

— the assumption of accountability responsibilities by those actually charged with the final administration of the tax dollar, and also by those governing bodies who have the overseer responsibilities for departments, corporations, institutions, and others using public funds.

* * * * * *

FINANCIAL TOPICS

Financial Position and Operating Results

For several years, we have commented in our Annual Reports on certain relationships and trends in the financial position and operating results of the Province. Those comments stressed the impact of continuing annual deficits and the increasing net debt of the Province.

Again this year, those relationships and trends are examined and commented upon. Although the operating results of the current year represent a significant improvement over those of the previous year and the Government has taken action which should lead to future deficit reductions, the financial position of the Province as reflected in its net debt has not improved.

Net Debt

The most commonly used indicator of a province's financial position is its net debt, which is the excess of liabilities over realizable assets. In the Public Accounts, the Statement of Financial Position highlights this amount.

During the period from April 1, 1987 to March 31, 1988, the net debt increased by $252 million or 7.2% to $3.7 billion. Over the past decade, the net debt has increased to more than 7 times its 1978 level, from $507 million to $3.7 billion. This increase of $3.2 billion is attributable to:

Capital expenditures	$1.8 billion
Net excess of operating expenditures over operating revenues	2.1
	3.9
Less: Sinking fund earnings	.7
	$3.2 billion

Provisions for sinking fund installments and serial retirements of $539 million since 1978 are not included in the above tabulation. Of the $3.2 billion increase in the net debt over the past 10 years, 54% has been caused by operating deficits and 46% by capital expenditures.

To better understand the significance of the $3.7 billion net debt of the Province, we have reflected net debt on a per capita basis; as a

percentage of the total personal income of the Province (before tax); and as a percentage of the gross domestic product. Exhibit I illustrates the growth of the net debt over the past ten years. The figures for net debt per capita, net debt as a percentage of total personal income (before tax), and net debt as a percentage of gross domestic product have been inserted on the graph.

Operating deficit

The second measure of financial performance is the operating deficit or surplus for the year. The Statement of Current Revenue and Expenditure in the Public Accounts shows this amount next to the caption "Excess of Current Operating Expenditure over Revenue and Recoveries". It is the excess of the total current expenditures for all government departments, including grants and assistance programs and debt service costs, over the total operating revenues for the year.

There is a provision on the Province's Statement of Current Revenue and Expenditure, for Sinking Fund Instalments and Serial Retirements. It is added to the Excess of Current Operating Expenditure over Revenue and Recoveries, to arrive at the year's Net Revenue Deficit. Because current revenues are insufficient to provide for sinking fund instalments and serial retirements, it is, in effect, a refinancing of existing debt.

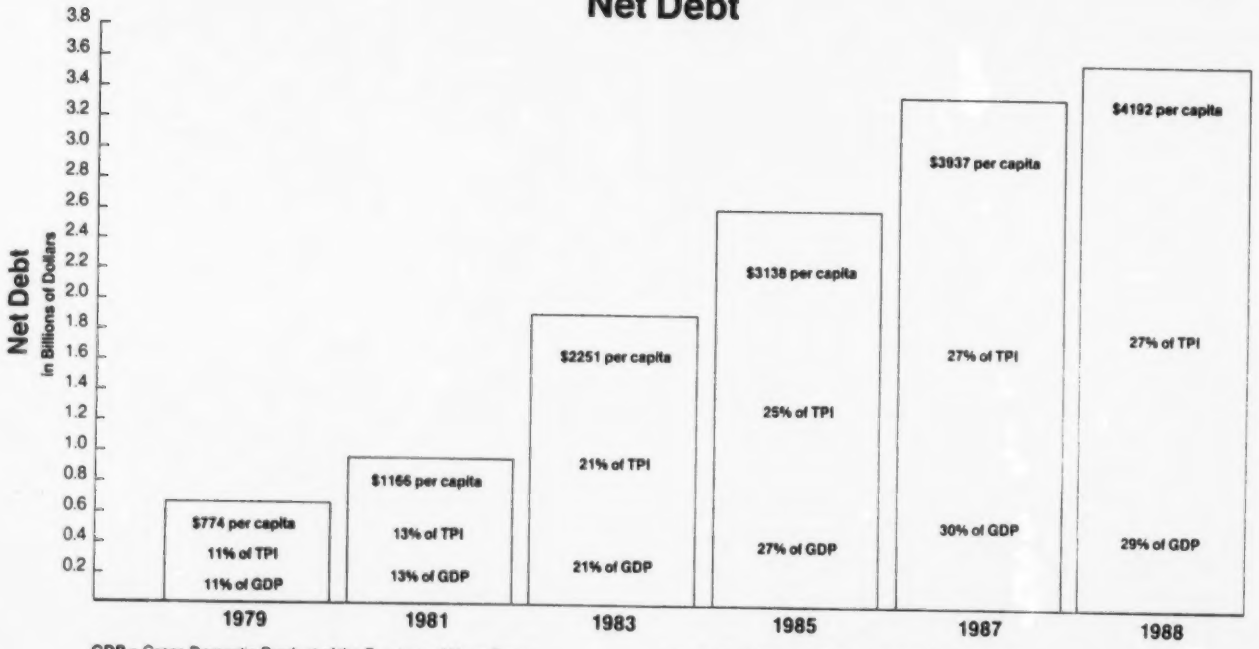
The operating deficit for the fiscal year ended March 31, 1988 was $115 million, a decrease of $66 million or 36% from the 1987 operating deficit.

In 1987, the Government of the Province announced a three-year fiscal plan for deficit reduction. At that time, a target of $185.3 million was set for the 1988 operating deficit. The actual deficit of $115 million was considerably better than the target. As a result, the revised deficit targets for the next three years are lower than the 1987 projections. By 1990-91, the Government hopes to reduce the operating deficit to $45 million.

The Minister of Finance, in his Budget Address of April 15, 1988, stated that *"the ultimate aim of our long-term fiscal plan is to balance the operating budget and borrow only for capital requirements."* Because on-going operating deficits have been the major factor contributing to the increasing net debt of the Province, the Government's goal of reducing the operating deficit through its three-year fiscal plan is most commendable.

Exhibit I

Net Debt



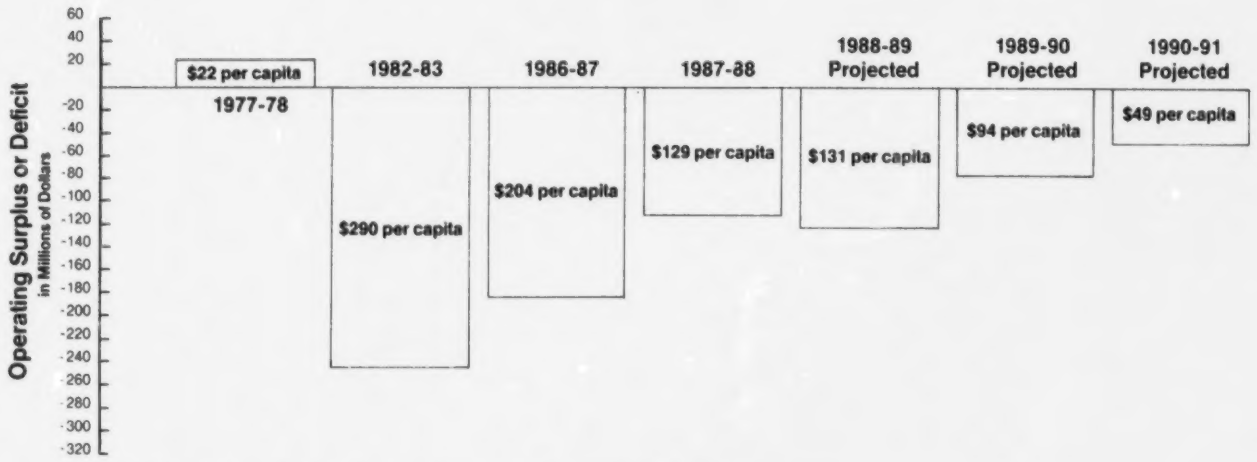
GDP = Gross Domestic Product of the Province of Nova Scotia
TPI = Total Personal Income (before tax) of the Province of Nova Scotia

Sources: *Gross Domestic Product and Total Personal Income —*
1979-1985 Statistics Canada
1987 and 1988 The Conference Board of Canada Forecasts of Key Economic Indicators
Population — Statistics Canada

Exhibit II

Operating Surplus or Deficit

(including projections for 1988-89 to 1990-91)



NOTE: Operating Surplus or Deficit excludes capital expenditures, sinking fund installments and serial retirements.

Sources: *1988-89 to 1990-91 projections — Budget Address to the Nova Scotia House of Assembly Given by the Honourable Greg Kerr, Minister of Finance on April 15, 1988*

Population — Statistics Canada

Exhibit III

Revenues and Expenditures

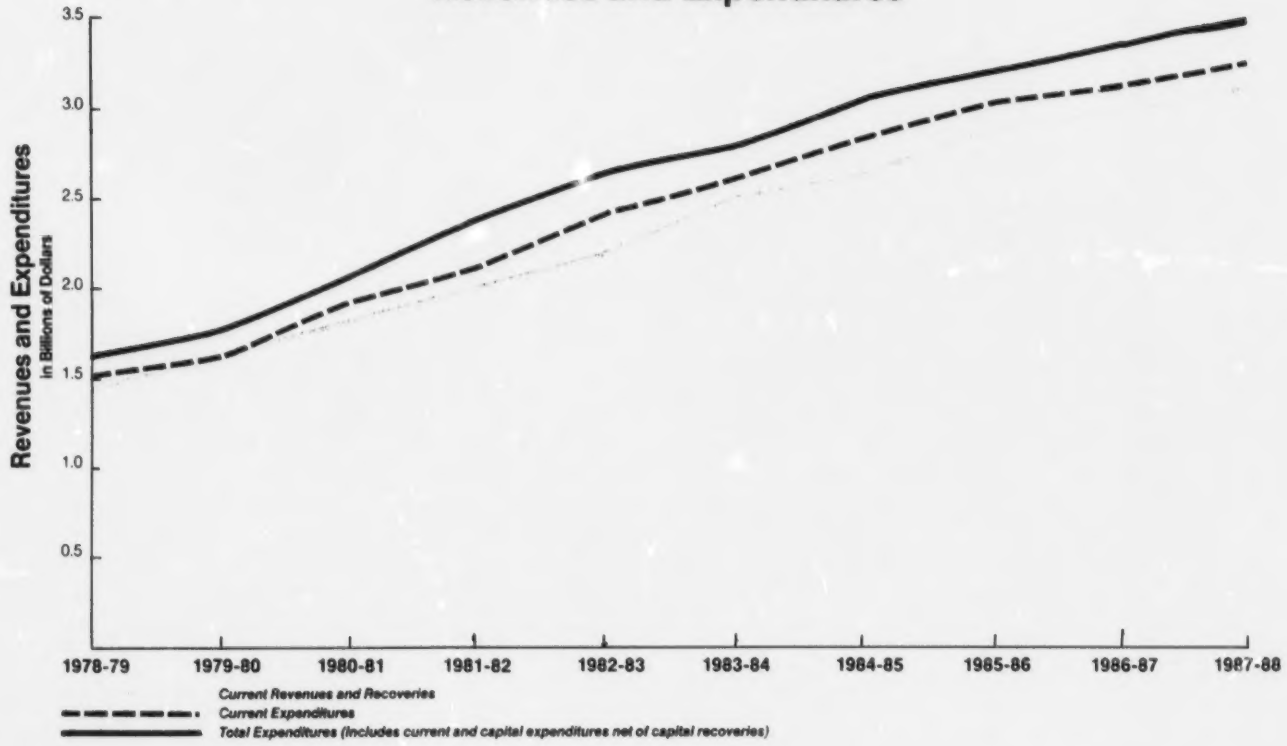


Exhibit II shows the operating deficit or surplus of the Province for selected years over the past ten years, as well as the Government's projected operating deficits for the period 1988-89 to 1990-91.

The Province also incurred capital expenditures during the year. These include expenditures for highways, construction and expansion of government buildings, equipment, and grants both for buildings and equipment for hospitals and other institutions. Capital expenditures are not included in the calculation of the current year's operating deficit, but they do increase the Province's net debt. During the fiscal year ended March 31, 1988, capital expenditures of the Province were $222 million, a 12% increase over the 1987 figure.

Exhibit III presents the total current revenues and recoveries, the current expenditures, and the total expenditures of the Province over the past ten years. This graph demonstrates that, for most of this period, current expenditures and total expenditures have increased at a faster rate than revenues. During the past year, however, revenues grew faster than expenditures.

The net debt of the Province will continue to rise until current revenues and recoveries exceed total expenditures. The Government's stated objective of borrowing only for capital requirements, if achieved, will result in the elimination of the operating deficit but not in a reduction of the net debt.

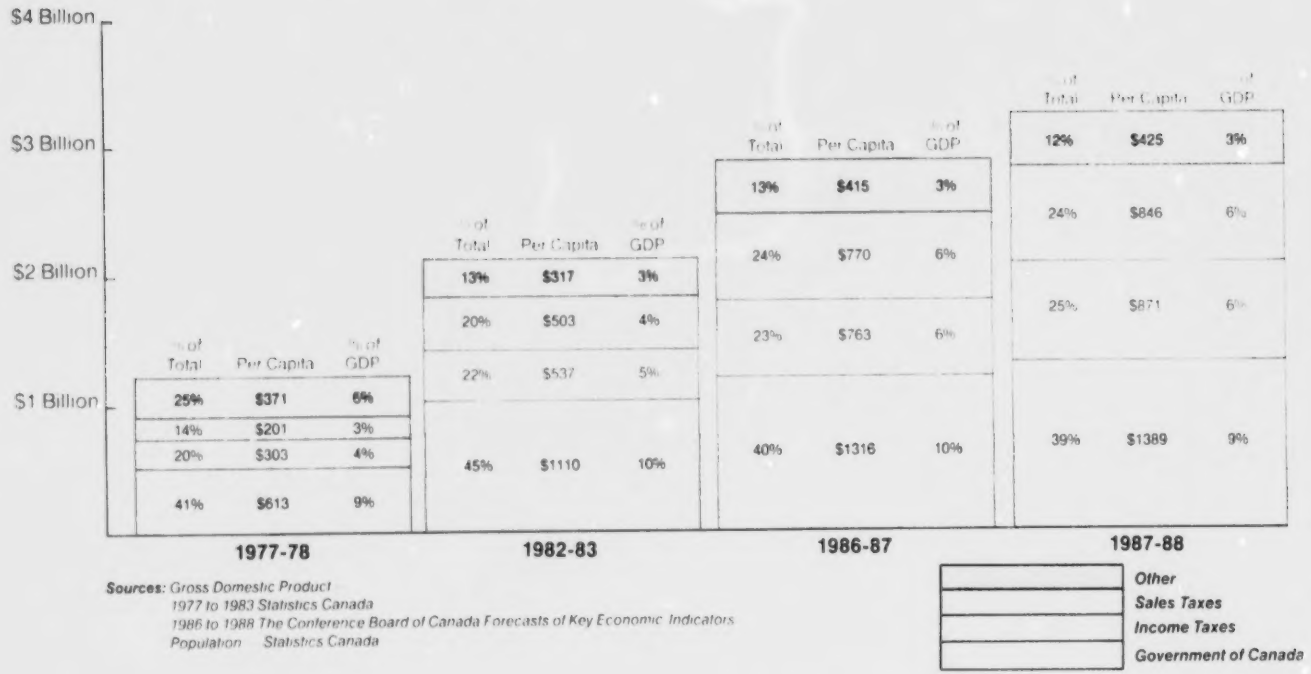
Revenues and Expenditures

To gain a better understanding of operating results, it is useful to examine the trend of significant revenue and expenditure amounts. Exhibit IV shows the revenues of the Province by major category for the current year, the previous year, five years ago, and ten years ago; while Exhibit V shows total expenditures (current and capital) over the same period. Both charts include per capita and percentage of gross domestic product figures.

During the year, revenue increased by 9% over 1986-87 while total expenditures increased by 7%. The increase in revenue was caused by an increase in the equalization payments received from the Federal Government, income taxes and sales taxes.

Exhibit IV

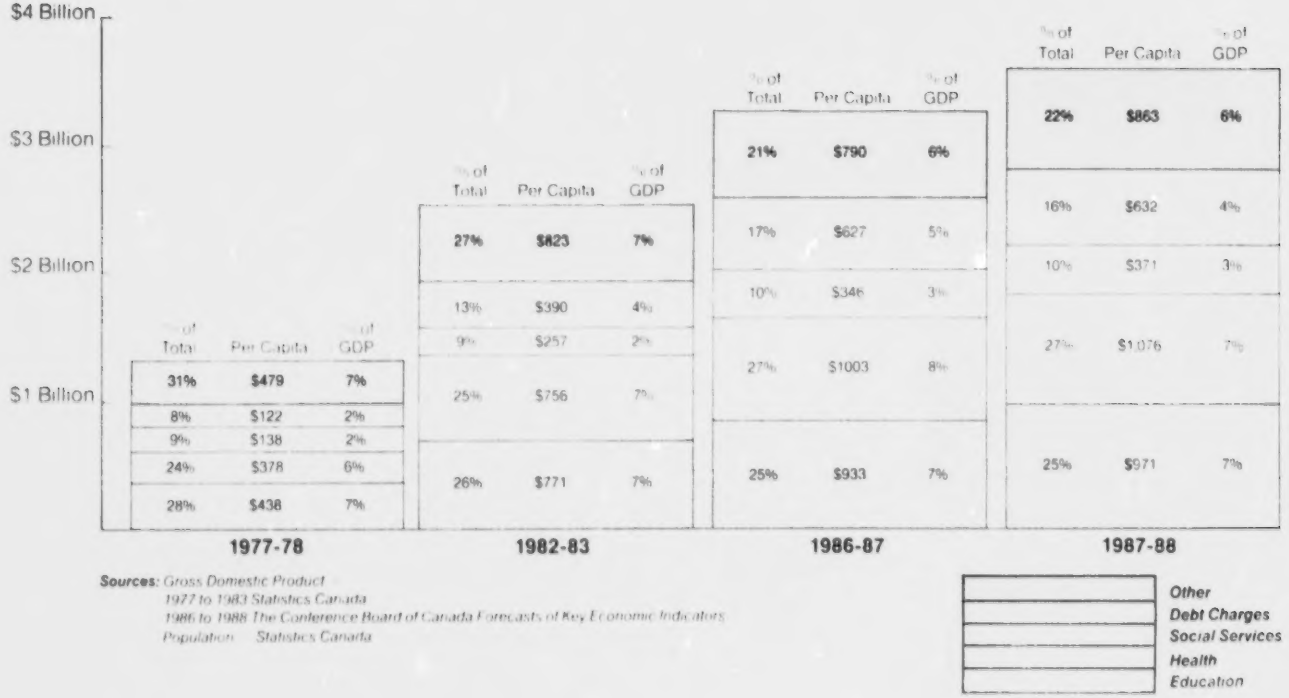
Revenues by Major Category



Sources: *Gross Domestic Product*
1977 to 1983 Statistics Canada
1986 to 1988 The Conference Board of Canada Forecasts of Key Economic Indicators
Population Statistics Canada

Exhibit V

Expenditures by Major Category



Sources: *Gross Domestic Product*
1977 to 1983 Statistics Canada
1986 to 1988 The Conference Board of Canada Forecasts of Key Economic Indicators
Population Statistics Canada

The effect of the ever-increasing debt load of the Province on debt servicing costs and total expenditures is apparent on Exhibit V. The 1987-88 debt charges of $566 million increased by $8 million or 1% over 1986-87. The 1987-88 figure is almost a fivefold increase over the debt charges of ten years ago. While debt servicing costs remain such a significant percentage of total expenditures (currently 16%), the proportion of revenues available for other government services and programs is obviously affected.

Health care expenditures of $964 million were the largest single expenditure incurred by the Province during 1987-88. They accounted for 27% of total expenditures and represented an increase over 1986-87 of $71 million or 8%. The 1987-88 figure represents an increase over 1977-78 of 204%.

In 1987, the Minister of Finance announced the establishment of a Royal Commission to assess the costs of providing present health care services, and to recommend measures which might be taken to achieve greater efficiency in delivery of health care services. The appointment of this Royal Commission indicates that the Government is attempting to deal with the problem of rising health care costs.

Comparison of Actual Results to Estimates

A fourth measure of fiscal performance is the comparison of the year's actual results to the estimates for both operating revenues and expenditures. This analysis shows how well the Government has followed the fiscal plan submitted to and approved by the Legislature.

For the 1988 fiscal year, the total revenues and recoveries of $3,164 million were 1.9% ($60 million) above the estimated figure of $3,104 million. Income taxes exceeded the estimated figure by $44 million (6%) mainly because of a change in the schedule for receiving payments from the Federal Government. Equalization payments from the Federal Government exceeded the estimate by $29 million (4%) due to the strong economic performance of Ontario which had an impact on the calculation of the equalization payments. Interest revenue was greater than the estimated amount by $7 million (10.5%). These were the only revenue amounts which varied from the estimates by more than 5%.

Actual total expenditures for 1988 of $3,284 million were .2% ($6 million) less than the estimate of $3,290 million. The only area which

exceeded the approved estimate by more than 5% was Resource Development (excess of $12 million or 7.5%). Debt Charges was the only area which had actual expenditures below its approved estimate by more than 5% (below estimate by $34 million or 5.6%). This analysis shows that the Government followed the fiscal plan approved by the Legislature very closely during the year.

Impact of Debt

The preceding discussion has focused upon the continuing operating deficits and increasing net debt of the Province. Although we have commented on these topics in previous Annual Reports and others have commented as well, we will again emphasize certain points.

The item which has perhaps the greatest impact on a Government's operations from a financial standpoint is its debt. Because of the escalation of accumulated debt, at both the federal and provincial levels over the past decade or so, serious concerns have been raised in many quarters. Opinion is divided on the following questions:

— what level of debt is sustainable;

— what items or projects can and should be funded by debt;

— what should be done about existing debt; and

— to what extent should future generations share in the cost of certain public infrastructures which they will use?

Nevertheless, there seems to be a consensus that debt should not be used to finance current operating expenditures, except under very special and short-run circumstances. Accordingly, the Government's deficit reduction plan, as a minimum, must be achieved and the wisdom of it accepted by all.

An interesting and relevant commentary on debt is to be found in the 1988 Annual Report of the Auditor General of Canada, in which he comments on the effect which continual borrowing has on the Government of Canada. I believe his remarks do have application beyond the federal scene, and are applicable to all provinces, including Nova Scotia. He states:

". . . spending in excess of revenues requires financing . . . financing involves both borrowing money and paying interest on that money through the years to come.

A government may manage economically. It may eliminate or reduce certain programs. It may be helped by a buoyant economy. It may reduce the size of the annual deficits.

But the meaning of the numbers is that as long as program costs plus debt servicing exceed annual revenues, more money must be borrowed, more future interest costs incurred, and an ever larger debt accumulated.

With high levels of deficits and interest rates, a greater proportion of the taxpayer's dollar has been going to debt servicing and a decreasing portion to actual programs. In the meantime, while the debt is growing, new programs, many involving statutory or long-term commitments, are being undertaken. The meaning of the numbers is that a future Government may find itself employing almost all its time and energy attempting to fund past commitments and service past debt, and have little or no current revenue to challenge the future."

Concluding Remarks

In recognition of the Province's critical financial position, an ideal objective would be to strive for a substantial reduction in its debt, although, realistically this is not immediately attainable. Nevertheless there should be a long-term fiscal policy directed towards the control and possible reduction of the debt.

The first step, already commenced, is to eliminate operating deficits. There would seem to be little question that this goal must be attained, and the Government's efforts to date in this respect have exceeded the projections of its 1987 three-year fiscal plan.

The next step relates to capital expenditures, for which there are two financing components: interest expense or debt charges, and principal repayments. The debt charges component is included among current operating expenditures as an appropriate charge against current revenues.

It is the second component, principal repayment, which is a far more difficult issue to resolve. The question is whether current revenues should provide for repayment of the principal over a reasonable amortization period (perhaps related to the useful life of the expenditure or asset); or whether capital expenditures should merely add to the Province's debt.

It must be clearly understood that as debt increases, so do the debt charges related to it. When these increase at a rate higher than growth in revenues, there will be pressure to reduce other expenditures to fund the debt charges and sustain the program of deficit reduction.

We have a responsibility to future generations to ensure that they are not unduly burdened by debt charges. It is reasonable to borrow for long-term capital expenditures, provided that carrying costs will not be an unacceptable burden on current and future revenues. Accordingly, it would seem prudent for Government to consider the merits of developing a long-term fiscal program to include its policies and plans regarding financing of the capital expenditure component of government expenditures, as it has done for current operations. This would seem necessary in order to achieve at least a stablization of the debt position, so that its impact on regular government operations is not an intolerable one.

Additional Appropriations

Every year the Estimates representing the Government's spending plans are approved by the Legislature. The Estimates are summarized in the Appropriations Act, which authorizes spending amounts by program for the coming year. The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations, which must be authorized by the Governor in Council. Additional appropriations are not scrutinized or approved by the Legislature. Consequently, Government is responsible for ensuring its original spending plans are as realistic as possible.

The Appropriations Act, 1987 contains 107 votes for current expenditures totalling $3,290 million. Thirty-seven of these votes required additional appropriations amounting to $50.4 million. Fourteen of the 22 government departments required additional appropriations. Additional appropriations totalling $8.4 million were authorized for two

capital expenditure votes. A summary of additional appropriations for the last seven years is listed below.

Additional Appropriations ($ Million)

Year	Current	Capital	Total
1987-88	50.4	8.4	58.8
1986-87	38.2	4.9	43.1
1985-86	113.6	2.2	115.8
1984-85	70.6	.2	70.8
1983-84	35.1	27.7	62.8
1982-83	84.2	5.9	90.1
1981-82	166.2	24.8	191.0

Overexpenditures in the Departments of Industry, Trade and Technology; Health and Fitness; and Transportation and Communications accounted for 69% (63% in 1986-87) of the additional appropriations for current expenditures.

Total additional appropriations in the 1987-88 fiscal year, while greater than 1986-87, are at their second lowest level in seven years. It should be noted that during the current year the Government changed its accounting policy to reflect the changes in provisions for doubtful accounts as current expenditures, resulting in an additional appropriation of $14.2 million in the Department of Industry, Trade and Technology. The changes in the allowances for doubtful accounts were previously accounted for in the Statement of Changes in Net Direct Debt.

Expenditures for Health Programs exceeded the estimates by $10.8 million. The significant areas of overexpenditure were $4.6 million for increased costs of wages and benefits in all hospitals, and $6 million for actual costs of the Victoria General Hospital which exceeded its approved budget.

In 1986 and 1987 our Annual Reports noted the excess of expenditures for Snow Removal and Ice Control over the Estimates. Again in 1987-88 an additional appropriation was required for Administration and Maintenance — Transportation Systems in the amount of $2.9 million. This amount represented an overexpenditure of $4 million in Snow Removal and Ice Control, which was offset by underexpenditures of $1.1 million in other areas within the vote. Estimated and actual costs of Snow Removal and Ice Control for the last five years are presented below.

Snow Removal and Ice Control

Year	Estimate	Actual
1987-88	35,209,400	$39,212,810
1986-87	34,200,000	37,274,928
1985-86	30,000,000	38,543,199
1984-85	30,000,000	35,475,579
1983-84	30,803,000	30,710,000

The above tabulation shows that actual Snow Removal and Ice Control costs have exceeded the estimate by a significant amount since 1984-85. The estimate for 1988-89 of $37 million, while increased over the prior year, is still less than the actual costs in each of the past three years.

In five of our last six Annual Reports, we commented that the Estimates for Grants to School Boards were unrealistic because no allowance was provided for increases in rates used in calculating school grants for the January to March period of the fiscal year. The Estimates for 1987-88 included such a provision, and actual expenditures were within the approved budget.

Additional appropriations for capital expenditures were authorized for the Department of Industry, Trade and Technology, and the Department of Lands and Forests. Of the total amount approved, $4.5 million was not required. The additional appropriation for Industry, Trade and Technology amounted to $8.0 million for capital expenditures under the Sysco Modernization Subsidiary Agreement. Costs under this Agreement are largely funded by the Government of Canada.

Again this year I draw attention to the delay in approving additional appropriations. In 39 of the 45 instances where additional appropriations were required, the overexpenditure occurred before the date that the additional appropriation was authorized. These 39 totalled $48 million, and the interval between the time of overexpenditure and approval of the additional appropriation averaged 111 days (within a range of 20 to 226 days).

Furthermore, 37 of these were not requested until after year-end, and of those 60% (22 of 37) were approved in the months of July through September — in excess of three months after the end of the fiscal year.

The following schedule provides further information on additional appropriations approved for the March 31, 1988 fiscal year. It lists those for $50,000 or greater, totalling $58,541,855 or 99 1/2% of the amount of $58,761,726 approved for the year. In addition to showing the approval date, this schedule also reflects the actual amount spent.

Appropriations Greater Than $50,000
For the Fiscal Year Ended March 31, 1988

Department	Date Approved	Authorized	Expended
Agriculture and Marketing			
Agricultural Services	Aug. 9/88	$1,435,200	$1,435,106
Agricultural Production	Aug. 9/88	83,000	82,975
Attorney General			
Law Administration	Mar. 15/88	403,200	367,289
Public Offices	Mar. 15/88	266,300	212,606
Consumer Affairs			
Consumer Affairs	Apr. 20/88	164,000	126,378
Tourism and Culture			
Departmental Operations —			
Tourism	Mar. 15/88	1,028,100	1,023,996
Culture, Recreation and Fitness	Apr. 20/88	252,000	252,000
Culture, Recreation and Fitness	July 12/88	152,900	152,899
Hotel Operations	Aug. 9/88	95,100	95,040
Industry Trade and Technology			
Other (Capital) —			
Sysco Modernization			
Subsidiary Agreement	Feb. 23/88	8,036,850	3,717,721
Technical Services	Mar. 15/88	550,000	297,435
Other Agencies —			
Business Capital Corporation	June 7/88	200,000	200,000
Business Capital Corporation	Sept. 13/88	14,230,961	14,230,960
Capital Grants (capital)	June 14/88	80,000	15,191
Education			
Teachers' Pensions	July 12/88	855,400	855,336
Curriculum Development	July 12/88	285,500	285,481

Finance			
Home Owners' Incentive Grants	Feb. 23/88	1,275,000	1,192,740
Pension Plan Contributions	Sept. 13/88	144,918	144,917
Health and Fitness			
Health Programs — General Hospital and Psychiatric Services	Apr. 20/88	10,822,000	10,270,016
Health Services and Insurance — Medical Services Insurance	Apr. 28/88	2,949,000	2,949,000
Medical Services Insurance	Aug. 9/88	516,400	516,320
Housing			
Subsidies	Sept. 13/88	676,726	676,726
Lands and Forests			
Other (capital)	Apr. 20/88	265,200	198,083
Operations and Land Services	May 31/88	1,587,900	1,532,319
Public Service			
Royal Commission on the Donald Marshall Jr. Prosecution	Feb. 23/88	1,500,000	1,446,321
Maritime Resource Management	May 31/88	509,000	509,000
Protocol Office	Sept. 13/88	68,403	68,403
Workers' Compensation Board	Sept. 13/88	125,920	125,919
Royal Commission on Health Care	Sept. 13/88	208,088	208,088
Community Services			
Public Assistance — Municipal Social Services	Sept. 13/88	3,595,417	3,595,416
Family and Children's Services	Sept. 13/88	690,811	690,811
Transportation and Communications			
Administration Systems and Maintenance — Transportation	Apr. 20/88	2,902,100	2,680,779
Registry of Motor Vehicles — On-line computer implementation	Apr. 20/88	2,353,000	2,353,000
On-line computer implementation	Sept. 13/88	233,461	233,461
		$58,541,855	$52,741,732

* * * * * *

I am required under Section 8 (1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money"*.

No special warrants were issued during the 1987-88 fiscal year.

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CROWN AGENCIES AND CORPORATIONS

Introduction

There are 18 crown agencies and corporations, excluding hospitals, whose annual audits are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 16 of the Auditor General Act, we are furnished annually with the audited financial statements and all audit reports prepared by the auditors of these agencies and corporations. The Auditor General may conduct any such additional examination or investigation of the records and operations of the agencies as he deems necessary.

Examinations or investigations which our Office performs under Section 16 have different objectives and hence a different scope of review than that undertaken by the private sector auditors. We do not attempt to duplicate their work regarding an audit opinion on the entity's annual financial statements. The focus of our reviews is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews are reported to the management and Boards of the corporations and agencies, and a more abbreviated report is included each year in our Annual Report.

During the 1988 audit year, staff conducted in-depth reviews at the Nova Scotia Power Corporation and at Trade Centre Limited. We also performed a review of the functioning of Boards and Commissions at 12 entities representing crown corporations, commissions, health care institutions, and lending agencies, and a follow-up review to an examination conducted in 1985 at the Workers' Compensation Board. Articles on each of these assignments are included in this section, as well as an article resulting from our review of the audit reports prepared by the financial statement auditors of all these crown agencies and corporations.

Review of Auditors' Reports

Section 16 of the Auditor General Act requires auditors of all crown agencies to provide this Office annually with copies of the audited

financial statements and all reports prepared pertaining to these audits. We reviewed all financial statements and reports received. We were principally interested in whether:

— there was any indication of inadequate financial controls and records as mentioned in letters to management or indicated by reservations of audit opinion on the financial statements;

— there was timely preparation of annual financial statements, and the audits of them;

— there were notes to the financial statements outlining the legislative mandate of the entity; and

— there was disclosure of the entity's audited financial statements, preferably in the Public Accounts.

The following observations result from our examination of the financial statements and auditors' reports.

Financial controls and records — The Auditors' Report on the financial statements for the Workers' Compensation Board, which contained a reservation of opinion for December 31, 1986, was unqualified for December 31, 1987. This was partially a result of having an actuarial review completed on the estimated liability for outstanding claims. This liability amounted to $33.9 million at December 31, 1987.

The Auditors' Report on the financial statements of March 31, 1988 for the Sherbrooke Restoration Commission contains a reservation of opinion, as follows:

> *"Our examination indicated deficiencies in internal controls for program revenues. As a consequence, we were unable to satisfy ourselves that all program revenues of the Commission had been recorded. Accordingly, our verification of program revenues was limited to accounting for the amounts recorded by the Commission."*

The Auditors' Report also contains a reservation on opening fund balances because the previous year's figures were not audited. The management letter from the Commission's auditors suggested improvements in internal controls for program revenues. The Commission intends to have an annual audit of future years' financial statements.

Letters to management of other crown agencies from their auditors indicated some weaknesses, not serious enough to include in this Report.

Timeliness of statement preparation— Financial statements were prepared and audited within six months of the year-end, except for the Workers' Compensation Board which took about eight months. This was an improvement over the previous year, when the interval was nearly a year. The Board is taking steps to improve the timeliness of its financial statement preparation to further reduce this interval.

Schooner Bluenose Foundation was audited for the first time. During 1988, audits were conducted on the Foundation's March 31, 1986, 1987 and 1988 financial statements.

Legislative Mandate — It is important for the reader of financial statements to have some awareness of the legislative mandate under which the entity operates. This is most conveniently displayed as a note to the financial statements. Therefore it is recommended that all crown corporations and agencies include such a note.

Although there has been an improvement over the past few years, the financial statements of seven entities do not have such a note. They are as follows:

Check Inns Limited
Halifax-Dartmouth Bridge Commission
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Waterfront Development Corporation Limited
Workers' Compensation Board

Reporting — I have noted in previous Annual Reports that the Public Accounts of Nova Scotia should come as close as possible to presenting full disclosure of the financial position and operating results of all entities which are Government controlled.

The financial statements of three entities, although not in the Public Accounts, are tabled in the Legislature and available to the public. These are the Council of Maritime Premiers, a joint operation with the other Maritime Provinces; the Halifax-Dartmouth Bridge Commission; and the Workers' Compensation Board. The financial statements for the Atlantic

Provinces Special Education Authority, which is jointly funded by the four Atlantic Provinces, are neither included in the Public Accounts nor tabled in the Legislature.

Concluding Remarks

Improvements have been noted in the accounting and reporting of crown corporations and agencies over recent years. In order to maintain this trend, I reiterate my suggestion of prior years for legislation that would provide for accountability of crown corporations to the Legislative Assembly. Further comments in this regard will be found in the article on Boards and Commissions, commencing on page 83, which includes a tabulation of items suggested for crown corporation legislation.

This legislation would help to achieve uniformity in disclosure and improve the understanding of authority and responsibility allocated to Board members of these corporations. It should also define what constitutes an agency or corporation of the crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities. The definition in all legislation should be consistent.

Review of Boards and Commissions

Introduction

Boards and commissions, in both the public and private sectors, are being held more accountable for fulfillment of what others perceive to be their responsibilities. Judge Willard Z. Estey in his August 1986 Report Of The Inquiry Into The Collapse Of The Canadian Commercial Bank and Northland Bank stated: *"The Board of Directors must share some responsibility as well for the failure of the bank. They were susceptible to being mesmerized by management, and realization of the true state of affairs and its ramifications came too late. The key is their failure to insist upon simple and straightforward information from management."*

There are in excess of 200 boards and commissions in the Province, to which the Government appoints members by Order in Council. Many of these boards are established to oversee and/or coordinate the ongoing functions of specific societies and professions. It is unlikely that my Office will monitor boards of this nature. I consider it one of my responsibilities, however, to examine on a cyclical basis, at least those fulfilling government-related objectives. Accordingly, this past year we undertook a review of a number of boards and commissions to evaluate composition, responsibilities and reporting requirements.

We commenced the review by preparing an inventory of the boards and commissions appointed by Order in Council, classifying them under six captions: Health Care; Educational; Crown Corporation and Other Operating Agencies; Loans and Marketing; Regulatory and Advisory; and Other.

Our review had two purposes, in addition to the compilation of an inventory.

- To develop a set of criteria that could be used to evaluate the composition, responsibilities, and reporting requirements of major boards and commissions; and

- To apply the criteria to a representative number of boards and commissions.

Criteria

The following criteria were developed and then discussed with board chairpersons and full-time chief executive officers to confirm that they were reasonable and appropriate.

- Legislation or other government directives should clearly indicate the mandate for the organization, and the accountability of the board for its performance.

- Senior management should have a clear understanding of the authority and responsibility assigned to them by the board.

- Systems and practices should provide a suitable flow of reliable, relevant and timely information on performance of operations to the board and to Government for accountability purposes.

- If receiving or spending public funds, the entity or board should be subject to an adequate level of audit.

- The board should play an active role in at least the following areas:

  — organization, including the selection, direction, and evaluation of the chief executive officer;
  — strategic planning and policy framework;
  — external relations;
  — resource acquisition; and
  — performance evaluation.

- The board should meet on a regular basis, with minutes prepared that clearly present both deliberations and decisions.

- The board should, depending on the size of total operations, have a suitable subcommittee structure to provide the time and expertise for both advising and evaluating.

- The board should have a suitable representation of directors, from outside the entity, and the cumulative board knowledge should be sufficient to fulfill the board's function effectively.

Scope and Approach

This was a government-wide study including all boards and commissions, not just those audited by the Office of the Auditor General. The following 12 entities were selected as representative of crown corporations, commissions, health care institutions, and lending agencies established as extensions of departments of government. All have appointed bodies established by legislation, with varying responsibilities and accountabilities.

Check Inns Limited
Glace Bay Community Hospital
Halifax-Dartmouth Bridge Commission
Nova Scotia Farm Loan Board
Nova Scotia Fisheries Loan Board
Nova Scotia Liquor Commission
Nova Scotia Power Corporation
Sydney City Hospital

Trade Centre Limited
Victoria General Hospital
Victoria General Hospital Foundation
Workers' Compensation Board

Our review of documentation concentrated on the systems providing information to the board; the minutes of board meetings and subcommittees; and other areas as deemed appropriate, including representative transactions in which the board would be involved.

Our approach was to interview, as a minimum, the chairperson of the board or commission, and the full-time chief executive officer of the entity concerned.

Observations

The following observations are organized according to the eight criteria outlined earlier. In view of the limited documentation examined and number of interviews (only the chairperson and the full-time chief executive officer in most cases), our observations are general in nature and should not be considered fully applicable to each of the twelve boards and commissions. However, we noted nothing that would lead us to conclude that further interviews or examination would have necessarily resulted in materially different observations.

Mandate and accountability — In previous Annual Reports, we have commented on the need for legislation applicable to crown corporations, boards and agencies of government, in addition to what is included in the Provincial Finance Act.

While legislation applicable to individual entities provides guidance, there is need for Government direction of a broader nature for all entities. One approach for clarification, appropriate to all entities, would be legislation including the following provisions.

- One definition for crown agencies and corporations to replace several presently in legislation

- Maintenance of financial records, and preparation of interim financial statements where required for management purposes

- Preparation of annual financial statements and the audit of those financial statements, within six months following the fiscal year-end

- Inclusion of all audited financial statements in the Public Accounts of the Province, and the requirement for an annual report to be tabled in the Legislature

- Notes to the financial statements to outline the legislated mandate of the entity

- The auditors' report to mention whether the transactions examined by them were in accordance with legislation, regulations, the charter, and by-laws of the agency or corporation

From a management viewpoint, consideration should be given to provisions recently included in legislation regarding Federal crown corporations. These provisions assign dual responsibilities to both directors and officers to ensure that financial and management controls, and information systems and practices, are maintained in such a way as to provide reasonable assurance of the following:

— assets being safeguarded;
— economy and efficiency in the management of resources; and
— effectively carried out operations.

This Federal legislation requires that there be an internal audit activity, unless the cost of such audits is not justified by the benefits to be derived. We support such a provision.

In addition to the above legislated provisions, Government should provide a set of operating guidelines for accountabilities and responsibilities, as well as recommended practices for the functioning of a board. Development of these operating guidelines, with the suggested legislated provisions, should strengthen the boards in areas outlined under the other criteria.

Management authority and responsibility — Boards in the private sector traditionally play a significant role in the selection, direction and evaluation of the chief executive officer, and through this process provide senior management with a clear understanding of authority and responsibility assigned to them.

We found this process was not as definitive in the public sector, particularly in the areas of selection and direction. The monitoring of operations was taking place in the majority of cases we examined, but there was no formal evaluation of the chief executive officer.

Some boards are an integral part of a departmental operation, and we would not expect board members to formally evaluate public servants in those cases. Crown corporations and agencies, on the other hand, should have boards operating closer to the traditional private sector role, with formal evaluation of the chief executive officer.

Management information — The quantity and type of information going to the board for action depended on the nature of the organization. Many received summary reports on the activities of the major divisions and most received interim financial reports. Some boards received information for monitoring purposes only, while others such as loan boards, received information for specific action at board meetings. The information appeared appropriate for board purposes in most cases.

Audit — All entities examined were audited either by private sector auditors or by our Office.

It is not our contention that all entities reviewed in this assignment should have internal audit functions. For many the costs of internal audit would have to be considered in the light of potential benefits. However, two observations should be made.

- The Victoria General Hospital, one of the largest crown agencies in the Province, does not have an operative internal audit function.

- The three other entities with an internal audit function have not become involved in broad scope value-for-money auditing to the extent that we think they should.

Role of the board — We concluded, through a review of the information presented, that the boards appeared to monitor operations, approve resource requirements, and assist with external relations. They did not, however, become deeply involved in all aspects of the selection, direction, and evaluation of the chief executive officer, as mentioned above. Similarly, strategic planning was not a high priority in most cases.

Hospitals were unique in that one criteria for accreditation is that the board should periodically evaluate itself. One hospital we visited had completed its first self-evaluation. This was a beneficial process, which should be adopted by all boards.

We did not notice any correlation between the amount of effort expended by board members and the remuneration they received. Most were paid on a per meeting basis with the same or similar stipend, regardless of the complexity of the operation or the degree of responsibility for decisions. In a few cases a larger fixed amount was paid, presumably in expectation of much greater involvement.

Although the majority of members of boards and commissions offer their services without thought of remuneration, it would seem appropriate for Government to develop a classification structure that reflects a consistency in remuneration relative to member accountabilities. This would be in keeping with the guidelines recommended under "Mandate and accountability", and also assist in clarifying roles of both board and management.

Board meetings — The boards met regularly in all cases, and minutes of the meetings were prepared. The minutes summarized matters discussed, in varying degrees of detail. The number of meetings and the minutes appeared to meet the boards' requirements and our criteria. However, in our view, there should be more detail in the minutes on deliberations and proposals for action.

Subcommittee structure — A subcommittee structure existed in the six boards where one would expect them. The detailed work being completed at the subcommittee level indicated a suitable structure to provide time and expertise for both advising and evaluating.

Cumulative board knowledge — As a result of many re-appointments of board members, continuity and cumulative knowledge was provided. With few exceptions, board members were external representatives. The specialty loan boards, such as the Farm Loan Board and the Fisheries Loan Board, had strong representation from their applicable sectors. Hospitals appeared to have a greater tendency towards non-business lay representation, which did not appear to be a disadvantage.

Nothing formal exists to ensure proper representation on all boards. There are certain key specialities which most boards should have at all

times, such as legal expertise and financial experience. These specialities were not always represented on the boards.

Concluding Remarks

Our audit revealed a reasonably acceptable operation at the 12 boards and commissions examined. This may be attributed to the Government for selecting qualified board members most of the time.

Our criteria were found suitable by the various officials interviewed, and it is our intention to use them for future reviews of other boards and commissions.

The boards generally met our criteria in terms of regularity of meetings, attendance of members, operation of subcommittees where appropriate, and cumulative knowledge maintained through continuity of re-appointments and appointment of new members with suitable backgrounds.

The information made available for consideration and action by board members appeared appropriate. The minutes of meetings were generally sufficient to meet the needs of the recipients, but could be enhanced with more detail on deliberations and proposals for action.

There are two major items which should be addressed in order to improve the performance of all boards and commissions.

- Government should ensure clarity of mandate and accountability in each entity's legislation, for the benefit of the Legislature and board members.

- Government should also consider the preparation of guidelines, whether by legislation or otherwise, to provide direction appropriate for the operation of all boards and commissions.

Nova Scotia Power Corporation

Introduction

In 1988 this Office conducted an examination at the Nova Scotia Power Corporation. Although the Auditor General is not the appointed auditor of the Corporation, we are authorized under Section 16 (2) of the Auditor General Act to conduct such additional examination and investigation of the records and operations as we deem necessary. The last in-depth review of the Corporation by this Office was reported on in the Auditor General's Annual Report for the year ended March 31, 1977.

The three principal objectives for this assignment were:

— to review information on the financial position, operating results, and financial plans of the Corporation;

— to review and where possible make an assessment of selected areas of the Corporation's operations, with emphasis on financial management, planning and control; and

— to review, as part of a government-wide study of boards and commissions (see article page 83), the composition, responsibilities, and reporting of the Board of Directors.

Nova Scotia Power Corporation is a large and complex operation. Accordingly, we did not attempt to perform a review of all aspects in one assignment. Major areas examined in our 1988 review included:

Financial Position and Operating Results
Financial Planning, Budgeting and Reporting
Capital Expenditure Planning and Control
Rates and Regulations Process
Audit Coverage
Board of Directors

A large portion of the audit was devoted to interviews with senior officials, and the examination of sufficient transactions, reports and studies to obtain a general appreciation for the operations of the Corporation. The audit concentrated on the financial aspects of the business, and it was not necessary to contract outside experts for examination of more technical areas.

Financial Position and Operating Results

At March 31, 1988 the Corporation had total assets of $1.5 billion, including $1.3 billion in fixed assets. The long-term debt, net of sinking funds and current portion, amounted to $1.3 billion. Revenue for the year ended March 31, 1988 totalled $510 million, cost of operations $386 million, and interest expense $152 million.

We did not duplicate the audit coverage of the external auditors, but we did review sufficient information to gain a basic understanding of the Corporation's financial position and operating results, which was the principal objective of our work in this area.

Several major variables have a significant impact on the Corporation's financial situation. Four of these are fuel, interest costs, revenues, and water levels. Although management subjects each of these to intensive ongoing monitoring, it has limited control over each.

Two other significant matters were noted in our review.

- The Corporation's equity at March 31, 1988 had been reduced to $31.6 million after incurring a net loss of $27.8 million for the year. Also, the Rate Stabilization Reserve had been fully depleted at March 31, 1988 to absorb operating losses.

  Accordingly, the Corporation must implement one or more alternatives, to deal with anticipated significant future operating losses. These alternatives include:

  — an increase in power rates;

  — financial support from the Province;

  — containment or reduction of certain costs of production; and

  — financing deficits by borrowing.

  It is not our responsibility to express an opinion on which of these alternatives, and possibly others, should be adopted. The choice involves policy decisions by the Board of Directors of the Corporation, the Government of the Province of Nova Scotia, and the Board of Commissioners of Public Utilities (P.U.B.) in its decisions on rate increase applications.

- Electrical revenue is based on class rates approved by the P.U.B. The last increase was approved in 1982, effective in 1983. At the time of completion of our audit, the Corporation was in the process of applying for a rate increase.

  It is our understanding that this rate increase application proposes a structure that management feels will ensure financial self-sufficiency for the Corporation, and minimize or eliminate the need for direct financial support from the Province.

Financial Planning, Budgeting and Reporting

The Nova Scotia Power Corporation's corporate planning and budgeting processes are extensive. Significant resources are devoted to these activities. The reliability of long-term forecasting and planning for load requirements are critical because of the large capital investment involved and the extensive lead time required to commission new or upgraded generating capacity.

The principal objective of this segment of our audit was to review and make a general assessment of the Corporation's financial management process, particularly the preparation, review and approval of materials submitted to senior management and the Board of Directors. We reviewed the financial management process from a corporate-wide perspective, including annual financial planning and budgeting, and the monthly projection and reporting procedures.

The following are the more significant observations and conclusions derived from our review.

- On the basis of our audit work in this area, we found nothing which would indicate any serious deficiencies in the financial management process.

- Corporate plans, priorities and strategies are well defined and communicated. In our discussions with management we noted a consistent understanding of these plans and strategies, as well as a commitment to them. Both head office and divisional staff are involved in the process. Internal management committees are used extensively to review financial plans, budgets, results and projections; and the responsibilities of these committees, and staff associated with them, are well

defined. Senior management and the Board are kept well informed and involved in the process.

- With respect to the actual planning and budgeting process both for operating and capital items, we found it to be well structured and controlled. Responsibilities and accountabilities for preparation, review and approval are well defined, and various development plans are generated to support annual and long-term budgets.

- On a monthly basis, there is a fairly extensive reporting and projection initiative both at the head office and divisional staff levels. Results are compared against year-to-date budget, projections are modified for the remainder of the fiscal period as required, and reported to the Board of Directors.

- Over and above the basic accounting systems, a number of corporate management information systems have been implemented, such as operating and capital budget systems, and operating and capital projection systems. In addition, a number of divisions have developed systems to meet their own particular needs. These are not fully integrated and there is some duplication of effort and function. The Corporation intends to update these financial systems, and achieve a greater degree of integration among them, an initiative which we support.

Capital Expenditure Planning and Control

The Nova Scotia Power Corporation had fixed assets of $1.3 billion at March 31, 1988 and has planned additional capital expenditures of $1.2 billion by 1993.

The Corporation performs extensive capital planning and control activities. Plans for major capital expenditures must be made at least five years in advance to accommodate feasibility studies, thorough cost-benefit analysis, environmental assessment, and other planning functions.

The objectives of our review in this area were to become familiar with and, where possible, evaluate the capital expenditure planning and control systems; and to evaluate operating policies and procedures for the control of fixed assets.

We determined there were clearly defined responsibilities and accountabilities. There was also compliance with reporting requirements of the Public Utilities Act. Three other observations and conclusions are worth noting.

- The Public Utilities Act requires that all work orders over $5,000 be sent to the Board of Commissioners of Public Utilities for approval. At both the Corporate staff and Board of Director levels, all work orders are subject to the same time-consuming analysis, review and approval processes, in spite of the fact that approximately 21% of the total work orders are for $5,000 or less. It is our contention that the Corporation's initiatives to have the approval limit of $5,000 increased are justifiable. Also, a level of materiality should be established internally to reduce time and effort spent on work orders of smaller amounts.

- The Capital Expenditure Review Board, an internal management committee formed for the purpose of reviewing all capital work orders before submission to the Board of Directors and the P.U.B., performs a meaningful review function.

- We concluded that the operating policies and procedures regarding control over fixed assets were generally appropriate. We made some recommendations concerning the expansion of the Capital Asset Accounting Manual to include procedures for fixed asset management, physical controls, and accounting controls at the divisional level.

Rates and Regulations Process

Our principal objective in this area was to gain an understanding of the rate-setting and monitoring process, including the relationship between the Corporation and the P.U.B. In addition, it was our intention to evaluate, if possible, this process at the corporate level against appropriate criteria. The P.U.B. receives applications from the Corporation and, on the basis of public hearings and its deliberations, sets rates for each classification of customer.

Nova Scotia has the second highest power rates in the country. This is largely attributable to the fact that coal is used as the main source of generation, whereas other provinces have less costly hydro-electric and/or nuclear power generating capabilities.

The following are the more significant conclusions and observations derived from our review.

- We concluded that the rate-setting and monitoring process in the Corporation is appropriate. An extensive forecasting process for electrical revenues has proven to be quite accurate. It is extensively used for planning of capital and operating expenditures.

- The Corporation's goal is to have all customer classifications return 100% of their costs. Based on the Corporation's Cost of Service Study, some customer groups return less than 100% of their costs, while others more than 100%. Management is aware of this situation and the underlying causes. They are endeavouring to remedy these, insofar as possible, through the current rate application before the P.U.B.

- The last application for a rate increase was filed in 1982, with an increase effective in 1983. During the last three to four years, there have been three occasions when the Corporation made preliminary preparations for a rate increase application but did not finalize the application for filing with the P.U.B. The preparation of rate increase applications is quite costly, both in corporate staff time and consulting fees. For example, approximately $100,000 was spent in each of the fiscal years 1986-87 and 1987-88 for consulting fees concerning applications which were not filed. A decision was made in each case not to proceed with the formal submission of the rate increase application to the P.U.B. In our view, the decision to proceed with a rate application should be made prior to the commitment of significant external and internal costs.

- Our review of the organization and accountability statements for positions associated with rates and regulations indicated that there is a strong system of accountability in this area. Responsibilities are clearly defined, and the rates and regulations are well documented.

Audit Coverage

The Nova Scotia Power Corporation is audited by a national firm of chartered accountants, and it also has an internal audit department with

a staff of eight. It was not our intention to duplicate in any way the work of these two audit groups, but rather to obtain a basic understanding of the audit coverage achieved by each, and in a general way assess the performance of both the external and internal audit functions of the Corporation.

External audit — We reviewed the external audit function to determine the extent and type of audit planning; the manner in which the audit was conducted and documented; and the views of the external auditors on significant matters arising from their audits.

We were satisfied that the external audit function is well planned, conducted and controlled. We were impressed with the calibre of their planning documentation, working paper files, and their audit reports to management.

Internal audit — Our review of the internal audit function was based upon criteria from the "Standards for the Professional Practise of Internal Auditing" of the Institute of Internal Auditors. These include standards for organizational independence and objectivity with respect to planning, conduct and reporting of audits; the presence of a clearly defined, documented and unrestricted audit mandate; the degree of expertise and continuing professional development of staff; the methods of planning, conduct and reporting of audits; supervision and quality control of audits; and other related matters.

In the past, our Office has emphasized the need for improvements and expansion of the internal audit function in government. We believe that it has often been under-utilized, and needs stronger support from senior management both in departments and crown corporations.

Although we did not intend to perform an in-depth examination of all aspects of the internal audit function at the Corporation, our review was sufficient to enable us to arrive at significant conclusions and recommendations relating to it.

It is our view that some of the generally accepted standards and practices for the operation of an internal audit department are not being met as well as they should be.

We have recommended specific improvements in the areas of planning, control and reporting for the function as a whole, and for specific audit assignments. We believe there should be far greater

emphasis on value-for-money audits. Our recommendations are intended to enhance the overall effectiveness of the internal audit function for the Corporation.

Additional recommendations for management's consideration have been made in the following areas:

— more comprehensive and useful reporting by internal audit to the Corporation's Audit Committee;

— the establishment of a multi-disciplinary group within the Corporation to perform value-for-money audits;

— the setting of audit priorities on the basis of formal risk analysis, and the potential for cost savings or benefits; and

— administrative and procedural improvements within the internal audit department relating to an audit manual, a formal training program, time control over audits, and file review procedures.

Board of Directors

The Power Corporation Act specifies that there shall be a Board of Directors comprising the Chairman, President and not more than 12 additional directors. The objective of our examination was to evaluate, to the extent possible, the composition, responsibilities and reporting of the Board.

This year our Office performed a government-wide review of boards and commissions (see page 83). The Nova Scotia Power Corporation was one of the twelve entities examined in this study. This segment of our examination was, in fact, part of two separate audit assignments.

The criteria employed in this evaluation are more fully described in the separate article on boards and commissions referred to above. These criteria refer to such areas as legislative mandate and accountability; understanding of authority and responsibility between senior management and the Board; adequacy of information provided to the Board; extent of its role in various matters relating to the operations of the entity; conduct of meetings as reflected in minutes and reports; and the composition of the Board.

On the basis of our review, we determined that the Board of Directors of the Nova Scotia Power Corporation is fulfilling its responsibilities in an effective manner. Our other significant observations in this area are listed below.

- Systems are in place to provide a suitable flow of reliable, relevant and timely information to the Board.
- The minutes of meetings are well prepared and indicate careful deliberation by the Board on all topics submitted to it for consideration.
- The Board meets on a regular basis.
- An active sub-committee structure exists which performs an advisory and evaluation function for the full Board.
- The composition of the Board provides a reasonably good representation from the community and the professions.

Concluding Remarks

Our overall conclusion or impression is that the Corporation's general management policies and practices are appropriate in the specific areas we reviewed. The Board of Directors appears to be adequately informed and involved in the ongoing review and approval of corporate plans, budgets and results. Management and staff are well aware of and committed to the Corporation's goals and priorities.

There seems to be a critical need for the Corporation to take action to deal with anticipated significant future operating losses.

Although financial management control systems and procedures appear generally appropriate, we have noted areas where the Corporation has commenced improving certain of these systems.

We have identified specific areas for improvement in the internal audit function, so that the Corporation may have the benefit of an enhanced and more effective resource, particularly in the area of value-for-money auditing.

Trade Centre Limited

Introduction

During the past year, this Office completed a review of the operations of Trade Centre Limited. The Office of the Auditor General is empowered under Section 16(2) of the Auditor General Act to conduct special audits, at the discretion of the Office, in those agencies of government where a chartered accountant other than the Auditor General is the appointed auditor. It has been our practice to review periodically certain aspects of the operations of various crown corporations, apart from the audit work done in connection with the opinion on their annual financial statements. This is the first time that our Office has undertaken a review of the operations of Trade Centre Limited.

Objectives

The objectives of this assignment were to gain a general awareness of the operation and organization of the Corporation, to review key functional areas from an operational or managerial standpoint, and to make a general assessment of how well the responsibilities assigned to these functions were being performed. It was our intention not to duplicate the audit work of Trade Centre Limited's financial statement auditors.

Overview of Operations

Trade Centre Limited is a crown corporation, created in November 1981 by Order in Council, and incorporated under the Nova Scotia Companies Act. The Province of Nova Scotia is the beneficial owner of all shares of the company.

The Order in Council establishing Trade Centre Limited indicated that it was created "for the purpose of constructing, managing and controlling Phase II of the Metro Centre Complex". This mandate indicates that the Corporation's primary purpose is to oversee and administer the activities related to the building complex. A secondary purpose, flowing from the first, is to actively promote the facility, Halifax, and Nova Scotia.

Trade Centre Limited is one of very few, but an increasing number of such entities in Canada. Its three main components are a convention centre, office and retail space rental, and a World Trade Centre — to encourage and promote international trade. In addition, under agreement with the City of Halifax, Trade Centre Limited manages the Halifax Metro Centre.

The Government of Canada, the City of Halifax, and the Province of Nova Scotia have all assisted in financing the corporation.

- All three contributed capital funding.
- The City makes an annual contribution to the operating deficit of the convention centre.
- The Province has funded the operating deficit before amortization, depreciation, and interest expenses of the corporation. The Province has also given non-repayable grants to assist in financing the capital costs.

Trade Centre Limited has a nine-member Board of Directors, four appointed to represent the City of Halifax, and five appointed to represent the Province of Nova Scotia.

During 1987-88 the corporation had operating revenues of $3.9 million; net operating expenses of $5.0 million; other expenses (amortization, depreciation and interest expenses) of $3.1 million; and with the offsetting operating subsidies totalling $1.1 million from Halifax and the Province, a loss for the year of $3.1 million. The accumulated deficit was $11.5 million as at March 31, 1988.

Management notes that realistically the convention centre cannot be expected to provide a positive return. However, it does serve to generate revenue for the business community, and provincial sales tax. It is encouraging to note the improving contribution being made by the office and retail space rental operations. These operations should eventually be in a position to contribute positively to the corporation's operating results.

Overall Conclusion

We were able to obtain a satisfactory understanding of the operations of Trade Centre Limited from the interviews conducted and documentation reviewed. Our audit did not reveal any major problems or

deficiencies in the general operations or management of Trade Centre Limited. There were, however, a number of recommendations made for consideration by management.

Observations

Food and beverage services — The most significant expense of Trade Centre Limited is for food and beverage services. Trade Centre Limited charges clients for these services and in turn pays a private catering firm for expenses incurred by them. In addition, the caterer is paid a percentage of sales for overseeing the food and beverage operations.

In 1985, Trade Centre Limited engaged consultants to review the food and beverage operations. It was appropriate to have this aspect of operations reviewed, and it should be acknowledged that management has effectively dealt with the consultants' recommendations.

In our view, both management and the Board are adequately involved in and informed of the activities of the food and beverage services area. Because of the importance of this area, it requires ongoing monitoring and review.

Operating expenses — The March 31, 1988 financial statements indicated total operating expenses (before amortization, depreciation, and interest expense) of $5.5 million, before tenant recoveries of $.5 million. The four largest expenses were:

	$ (Millions)	%
Event expenses	$1.9	34
Salaries, wages and benefits	1.0	18
Taxes	.8	15
Advertising and marketing	.5	9
	4.2	76
Other Expenses	1.3	24
Total	$5.5	100

These four items comprising 76% of the corporation's operating expenses are subject to monthly monitoring by management and the Board. Our review of them indicated the following.

- Event expenses (primarily food and beverage services) are monitored weekly and monthly to control projected and actual expenses.

- The authorization and approval of salaries, wages and benefits are appropriately controlled.

- Property taxes, based on assessments, are currently under negotiation with the City of Halifax.

- Advertising and marketing expenses are well-controlled and monitored by senior management and the Board.

In addition, we examined the review and approval process for cleaning, security, and insurance. We found that the first two items are significant both in amount, and their impact on the corporation's image for cleanliness and professionalism. A determination of who provides these services must go beyond cost considerations to include the quality of the service. Our conclusion is that there are appropriate controls over these three expenses.

We also reviewed selected components of the cash management process at Trade Centre Limited, and found them reasonably well administered.

Organization and administration — The Board of Directors plays an active role in overseeing the management of the corporation. It is involved in reviewing significant contracts, approving the marketing strategy, and in many other areas that affect the operation and image of Trade Centre Limited.

The wording of the 1981 Order in Council establishing Trade Centre Limited was general enough to enable the entity to evolve as it has. We suggest that it might now be appropriate for the Board of Directors to prepare a "Mission Statement" that would more precisely describe the Trade Centre Limited's future direction.

Although a relatively new entity, the organizational structure of Trade Centre Limited has been reviewed and changes made as recently as March 1988.

Management is in the initial stages of implementing a long-range planning process which should help to identify and communicate the

goals and objectives of the corporation to all involved in its management. To date there has been no formal capital budget, but one is anticipated as part of this process.

Workers' Compensation Board

Introduction

Although the Auditor General is not appointed the auditor of the Workers' Compensation Board of Nova Scotia, we are authorized under Section 16(2) of the Auditor General Act to conduct such additional examination and investigation of the records and operations as we deem necessary. During the year, this Office completed a follow-up to a review we performed in late 1985. The March 31, 1985 Report of the Auditor General included an article summarizing the results of that review.

Prior to our review in 1985, external consultants had, at the request of Government, reviewed and reported upon selected areas of the Board's operations.

Objectives and Scope

The objectives of this year's review were to determine the status of action taken or planned to address the recommendations reported to the Board; and to identify significant current management issues being addressed by the Board.

We had discussions with management, and reviewed selected information relating to the current situation and operations at the Board. Management's representations and explanations on the status of action taken or planned to address our previous recommendations were assessed for reasonableness.

Overview of Operations

Under the provisions of the Workers' Compensation Act, the Board assesses and collects amounts from various classifications of employers based on employee payroll costs. This is done in order to

meet operating expenses, compensation claims, and disability and survivor pensions. The Board had assessments in excess of $70 million, and an asset base of $164 million as at December 31, 1987.

The Workers' Compensation Board consists of four commissioners appointed by the Governor in Council, one of whom is designated as Chairman. In 1984, a General Manager was appointed for the first time, and he is also now the Board Chairman. At the time of the follow-up review, two of the full-time commissioner positions were vacant due to a resignation and a retirement.

Observations

The article included in our 1985 Annual Report summarized the principal matters dealt with in the consultants' reports together with our comments, under the following headings.

Organization and administrative structure
Data processing function
General accounting function
Systems of internal control

The following are summaries of our observations in these areas as noted during our follow-up review this year.

Organization and administrative structure — The organization and administrative structure of the Board and its major departments have been changed to provide better management and control of day-to-day operations, and will continue to be modified as required to address outstanding or new issues. Recommendations made by this Office as well as the consultants regarding realignment and assignment of responsibilities have been considered and most have been implemented or are being addressed. All policy manuals and job descriptions have been updated.

Data processing function — Virtually all financial and operational activities of the Board rely directly or indirectly on the data processing function. Our 1985 report, as well as the consultants', indicated serious criticisms of the overall management and operation of the data processing function and made a number of significant recommendations.

Management has taken noteworthy initiatives in this area. There have been organizational and personnel changes within the data processing function. External data processing consultants were hired to work with Board management in completing a System Upgrade Study. This resulted in the definition of the detailed strategies and plans to resolve the system and technical problems. Developing and implementing improvements to the various systems or applications will require the ongoing commitment of significant resources. For example, external consultants are also being used to supplement the Board's data processing staff.

General accounting function — Notable progress has been made to address the recommendations made by this Office and the consultants for improving the organization and operations of the accounting function.

The Board's books of account have been centralized within the Finance Department. The basic accounting systems — general ledger, accounts payable, payroll — have been or will be converted to microcomputer systems operated by Finance Department staff.

The annual report, including the audited financial statements, has been improved over the last few years. Further enhancements are planned to the presentation and disclosure of the Board's financial and operating information.

Systems of internal control — A number of realignments of responsibilities, which have contributed to an improved system of internal control at the Board, have been initiated since our 1985 review. Management's view is that until many of the information systems enchancements included in the System Upgrade Study have been successfully implemented, improvements in the related manual procedures cannot be fully introduced.

Other Developments

Ministerial Action Group — A Ministerial Action Group (MAG) was appointed by the Minister of Labour for the Province of Nova Scotia in October 1986. The MAG was given a mandate to review the Workers' Compensation Act as well as the policies and practices of the Workers' Compensation Board and the Workers' Compensation Appeal Board.

The MAG's report — Workers' Compensation in Nova Scotia "The Turning Point" — includes, among others, recommendations relating to the administrative process and procedures at the Workers' Compensation Board. These recommendations notwithstanding, the following extracts from their report are noted here.

> *"The MAG is particularly impressed with the administrative changes the management of the Workers' Compensation Board has accomplished, most notably, during the past 36 months and especially during the past twelve months.*
>
> *It is a credit to the present management that modern business practice and procedures have been embraced in such a positive manner, this can only reflect in a high level of service delivery to compensation clients."*

These observations are consistent with our overall impressions and conclusions as a result of our follow-up review.

Reserves — The Board had four Reserves which totalled over $126.4 million at December 31, 1987. The two principal ones are the Pensions Reserve at $79.4 million, and the Consumer Price Indexing (CPI) Reserve at $39.0 million.

An actuarial valuation performed in 1986 determined that the Pensions Reserve was adequate to provide basic pension benefits to current pensioners before taking into account the effect of consumer price indexing requirements. However, at December 31, 1986 the CPI Reserve had an estimated deficiency of $45.0 million due to estimates of future increases in the price index.

During 1987, the deficiency in the CPI Reserve was reduced by $25.6 million through transfers from estimated outstanding claims liabilities not required of $12.6 million, and $13.0 million from current revenues.

The December 31, 1987 audited financial statements of the Board do not reflect the remaining deficiency. It is our understanding that this deficiency was not disclosed pending the completion of a formal actuarial valuation of the CPI Reserve. The Board has indicated that this review is to be completed in time to allow full disclosure of the remaining estimated actuarial deficiency in the CPI Reserve in the December 31, 1988 financial statements.

External audit function — The Board changed external auditors beginning with the December 31, 1986 fiscal period. Due partially to staff changes at the Board, the transition to new external auditors and an expanded audit scope, the cost of the annual financial statement audit has increased substantially. In addition, delays in finalizing the financial statements were encountered for the 1986 and 1987 years.

We understand that efforts are being made both to reduce the audit costs and to finalize the 1988 financial statements by May 1989. Continued close liaison and cooperation between Board management and the external auditors will be essential.

The external auditors prepared three reports relating to their December 31, 1987 audit. These reports included recommendations relating to basic controls or procedures. Management has indicated that certain of the recommendations have already been dealt with and others are being addressed.

Concluding Remarks

Based on this follow-up review, we believe that the Workers' Compensation Board has made considerable progress in addressing the problems and issues identified by our 1985 audit and the consultants' 1984 and 1985 reports.

We commend Board management for their initiatives to date, and encourage them to continue their efforts to address the outstanding issues in order to facilitate and maintain effective operation of Board activities.

* * * * * *

SPECIAL DEPARTMENTAL REVIEWS

Introduction

Each year, this Office performs extended (what is often termed broader scope) reviews in certain areas of departments of government. These reviews may cover selected activities of a department, or the review of a given activity or function on a multi-department or government-wide basis. Certain of these areas or functions, which are subject to a special audit review by this Office, are scheduled on a cyclical basis of once every three to five years. Others are subject to review less frequently.

During the past year, three different types of special audit reviews were conducted, which in total comprised 11 audit assignments. There were two government-wide or multi-department assignments:

Departmental Annual Reports
Result Indicators

We performed six in-depth reviews in departments of government:

Department of Attorney General — Provincial Judges and Prothonotaries
Department of Community Services — Homes for Special Care
Department of Government Services — Property Management
Department of Lands and Forests — Nurseries and Air Services
Department of Tourism and Culture — Grants and Inspection Services
Nova Scotia Business Capital Corporation — Receiverships

We also performed follow-up reviews to three previous special audits:

Department of Advanced Education and Job Training — Vocational Schools
Department of Finance — Provincial Tax Commission
Department of Health and Fitness — Medical Services Insurance

These special departmental reviews, as distinguished from our financial statement and compliance audits, focus on an evaluation of matters pertaining to the administration and management of the particular activity or function under review. A comment made in each of

our last two Annual Reports is repeated, regarding what we consider to be a significant benefit from these audits. In all cases, we were able to provide the departments or agencies concerned with what we consider to be worthwhile observations and recommendations for improvements.

Not only were these observations and recommendations well received in most cases, but many were acted upon before the audits were actually completed. To have our Office in a position not only to evaluate performance, but to provide useful suggestions for improvement, is an extremely positive dimension of our work.

Finally, many of these audits encompass activities or functions that are government-wide. Although there are specific issues concerning individual departments, there are often observations and recommendations which are more widely applicable. Accordingly, it is Government's responsibility to ensure that action is taken on those matters which are government-wide in application. This action can take many forms such as the development and promulgation of government-wide operating policies and procedures, the provision of functional advice and support to the departments, and finally, monitoring to ensure that there has been compliance with the policies and directives of central agencies of government.

Department of Advanced Education and Job Training Vocational Schools

Introduction

In late 1985 and early 1986, we conducted a special review of the controls over the operation of the 11 regional vocational schools now under the direct supervision of the Department of Advanced Education and Job Training. An article in our 1986 Annual Report described the results of this examination and the recommendations we made.

The Department's reaction to our observations and recommendations was quite favourable. All have been considered, although the final implementation of the recommendations is not complete. Many of them were of a nature that could not be fully implemented in a short period of time. In February 1988, the Department's White Paper on a Community

College System for Nova Scotians, "Foundation for the Future", was approved and implementation of many of the provisions contained in it is underway. A number of the recommendations contained in our audit report will be addressed through the final implementation of the Community College proposals.

In 1988, we performed a follow-up review to assess the status of the recommendations made in our 1986 report to the Department. Our comments are in the following paragraphs, under the four captions used in 1986.

Management Control Systems

From our review of the operation of the management information systems used by the Department and the schools to control their activities, we determined that although there was sufficient data available, the analysis of it was almost non-existent. We recommended a more formalized approach to analysing the data on activities and costs within each school, and on a comparative basis among the schools. We made further recommendations regarding accounting classifications and costing methods, internal control deficiencies, and non-compliance with departmental procedural requirements. In addition, we recommended that a Department with the diversity and magnitude of this one should have an independent internal audit function.

In June 1987, a computer was acquired with capabilities to generate most of the cost and analytical data required. While the data is now being collected, actual investigation or review of significant matters has not yet commenced. Efforts have been made to improve account classification and costing methods, and further improvements are expected with implementation of the proposals in the White Paper on Community Colleges. Certain of the internal control weaknesses have been corrected, and further reviews and analysis will be undertaken when the internal audit function becomes fully operational.

Curriculum

Our principal recommendations in this area were the need for a more meaningful review of new courses, and the monitoring of existing ones to ensure consistency among schools. In addition, we suggested implementation of student evaluations both of courses and instructors, and the adoption of uniform admission tests or interviews for students.

The Department has initiated the following in response to our recommendations:

— revised directives to schools concerning the development or changing of courses, to now require departmental review and approval;

— the arrangement of a $1 million Federal Government grant over three years, to review and update course curriculums;

— the implementation of the Community College concept, with expectation of a greater rationalization of courses;

— the implementation of standard admission procedures under the proposed Community College concept; and

— improvement in the reliability of the graduate follow-up survey.

Our recommendations on evaluation of courses and instructors have been considered, but the Department has decided not to act upon these at this time.

Human Resources Management

Three principal observations with respect to Human Resources Management were:

— the Department had no information system or data base appropriate to the administrative requirements for human resources management;

— no policy existed regarding the appraisal of teachers and principals; and

— the Department had no policy regarding additional training for teachers.

The Department's current position on these three matters is summarized below.

- Information is now available on many aspects of human resources, and the Department is considering a system to inventory personnel skills throughout the Province.

- A formal performance evaluation process for teachers is not in place. Although there are ad hoc systems in place, some are better than others.

- The Department has introduced classification increases, in teacher salaries, related more to technical updates than academic ones, and is planning increased expenditures on instructional staff training over the next three years.

Facilities and Materiel Management

In our 1986 Report we indicated that the operating costs of school facilities were not being regularly monitored by analyzing comparative costs for various facility management functions. In addition, we indicated that there was inadequate information on the frequency or results of fire inspections conducted at the schools.

Information is being gathered on costs and square footage with a view to developing standards to enhance controls over costs by comparisons to these standards. The frequency and documentation of fire inspections is still not consistent among the schools, although the Department has indicated to the principals that it is their responsibility to ensure that current inspections are performed and deficiencies corrected.

Concluding Remarks

The Department has acted upon many of the recommendations from our 1986 audit. We acknowledge that, during the period since this audit, the Department has been organizing itself as a new department of government, and preparing for the implementation of the White Paper on a Community College System — two extremely demanding and time-consuming tasks.

It is our hope and expectation that all of our principal recommendations will eventually be implemented, particularly those which relate to human resources management. Although certain of our recommendations with respect to evaluations will be difficult to implement, it seems that staff performance particularly in an educational system is critical and every reasonable measure must be undertaken to monitor it.

Department of Attorney General
Provincial Judges and Prothonotaries

Introduction

The Department of Attorney General maintains public offices throughout the Province for Registry of Deeds, Probates, Prothonotaries, Sheriffs and Provincial Judges.

Before 1985, our practice had been to visit two or more locations annually, and perform reviews of all public officials in these locations. However, this did not permit us to obtain an overall perspective on the total operation throughout the Province by type of official, and the relationship of each office with the Department's head office in Halifax.

To provide this perspective, we initiated a revised approach in which we now audit the public officials of the same type in many or all of the locations throughout the Province. In conjunction with this, we examine related activities in the Department's head office.

During the past year, we completed an audit of Provincial Judges Administration Units, and Prothonotary Offices. This audit evaluated the systems of internal control over revenues, receivables, and receipts; the computerized management information system (entitled the Provincial Court Information System); and the collection system for outstanding fines.

Our overall conclusions were that the systems of control both over Provincial Judges Administration Units, and Prothonotary Offices are generally inadequate, due primarily to the lack of a proper segregation of duties at most offices. We acknowledge that this situation is due to small numbers of staff at these offices. We concluded that the design and control of the Provincial Court Information System was adequate, but that certain improvements regarding policy directives and reporting routines should be introduced. We concluded that there are serious deficiencies in the systems being used to monitor and collect outstanding fines.

During review of our audit observations, conclusions and recommendations with senior officials of the Department, there was a clear indication of a general acceptance of these and, more importantly, notification of positive corrective action. These actions are detailed more fully in the following sections.

Provincial Judges Administration Units

The Provincial Courts are the original court of entry for criminal cases and summary offense proceedings. The Administration Units of these courts perform a variety of functions such as issuing all court documents, attending court sittings, providing custody of court exhibits, issuing and carrying out all orders of the Judges, and performing required accounting procedures for the receipt of monies from fines, restitution, bail and other fees, as well as various associated administrative tasks.

In the conduct of this audit, we visited 6 of the 14 units, namely Halifax, Bridgewater, Bedford, Truro, New Glasgow and Sydney. The objective of our audit was to determine whether the Department had adequate systems of control over revenues, receivables and receipts for provincial fines and costs.

In our opinion, because of a lack of satisfactory segregation of duties, the internal controls over revenues, receivables and receipts for provincial fines and costs are not adequate. We acknowledge that this situation is due primarily to the fact that staff numbers in these administration units often do not permit the degree of segregation of duties one would consider adequate. However, it must be noted that in the course of performing this audit we did not find any significant errors in the performance of the accounting function at the administration units which we visited.

There are, however, certain control procedures which should be introduced or maintained in order to compensate for the existing internal control deficiencies. In summary, these are:

— an internal audit activity which would periodically perform compliance audits at the units;

— an update of the Department's Policy Manual to reflect revised systems now in effect; and

— improvements in forms processing and the performance of certain administrative tasks.

An internal auditor was engaged by the Department in late 1988, and his duties will include compliance audits of the Administration Units. In addition, plans are currently underway to update the Department's Policy Manual, and improve forms processing.

Provincial Court Information System

The Department of Attorney General is continuing to implement the Provincial Court Information System (PCIS), which impacts on the operation of the Provincial Judges Administration Units. The system records the issuance of summary offense tickets, progress of cases through the courts, hearing results, fines and fee payments, and outstanding fines.

The objective of our review of PCIS was to evaluate the computer environment controls and to ensure that transactions are processed accurately and completely at head office and at the local administration units.

In our opinion, based upon the audit tests we performed, the Provincial Court Information System has adequate computer environment controls, and generally transactions are accurately processed at both head office and the local administration units which we audited. We made recommendations to the Department regarding the need for more formal guidelines for certain administrative practices, and improved reporting of information concerning pending cases and outstanding fines. We also recommended that the Department consider producing, on a regular basis, summary level reports containing specific data on fines receivable including comparisons, trends, and other relevant data.

The Department has indicated a willingness to introduce improvements in certain administrative practices regarding the Provincial Court Information System, and to consider the expansion of their reporting to senior management on fines receivable.

Collection of Fines

The effectiveness of the collection of overdue fines in the Provincial Courts has long been a concern of this Office. This matter was last reported in the Auditor General's Annual Report for the year ended March 31, 1982. The situation was considered serious at that time, and continues to be. Total fine revenues are substantial, amounting to $5.3 million for the March 31, 1988 fiscal year. The fines receivable at March 31, 1988 are $4.3 million.

The objectives of our review of the fines collection process were to determine the adequacy of the policies and procedures which head office had implemented to collect fines and follow-up overdue fines; to

determine whether the Provincial Judges Administration Units were following these policies and procedures; and to review any recent initiatives of the Department with respect to the fine collection process.

We were pleased to note that the Coordinator of Courts for Lunenburg County had been requested to conduct a review to evaluate the Department's fine collection process. His conclusions and recommendations were similar to ours.

The most significant matter is that the total dollar value and number of overdue fines have risen substantially to a level which must be considered unacceptable. Fine revenues for provincial offences have increased 18% in the last five years. Fines receivable are increasing at a much faster rate than revenues, to a level 59% higher than what they were five years ago. The proportion of fines receivable to total revenue is increasing because recovery rates are deteriorating.

Fine collection performance varies significantly from court to court, and there are several reasons for this. The time limits and consistency of follow-up action vary among the Provincial Courts. In addition, the effectiveness and willingness of the enforcement agencies to serve warrants of committal for non-payment of overdue fines differ.

It is our opinion that the Department does not have adequate and consistent procedures to ensure that all outstanding fines are promptly collected, and that overdue fines are adequately followed-up. It is our view that action should be taken to introduce more appropriate policies and procedures relating to staff duties and responsibilities, standard collection and follow-up practices, and relevant information on outstanding fines.

The Department's reactions to the observations and recommendations in both the report of the Coordinator of Courts for Lunenburg County and our report, have been immediate and positive. These include:

- meetings with the Chief Judge of the Provincial Court to develop means of improving this situation;

- meetings with the Clerks of the Provincial Courts to review the recommendations of the Coordinator of Courts for Lunenburg County;

— formal request of Management Board for additional staffing for certain offices to assist in the monitoring and collection of fines receivable; and

— other related and supportive initiatives.

Provincial Prothonotary Offices

The Prothonotary of the Supreme Court also acts as the Clerk of the County Court, Registrar of Divorce, Clerk of the Small Claims Court, and the Official Receiver. The Prothonotary performs a number of functions such as providing for the issue and maintaining of all court documents for County and Supreme Court sittings, attendance at these sittings, the provision of custody of court exhibits, the carrying out of all orders of the Judges, and maintaining a record of monies paid into the court and the holding of these monies in trust until distribution is ordered.

We performed an audit at five Prothonotary Offices, namely Bridgewater, Halifax, Truro, Pictou and Sydney. The objective of our review of these offices was to determine whether adequate systems of control over cash receipts, trust accounts, and exhibits were in operation.

Our principal conclusion was that because of limited staff size, there is an inadequate division of duties in most Prothonotary Offices. Duties such as the handling and recording of cash, preparation of bank deposits and bank reconciliations, and the preparation of cheques, are generally performed by the same individual. Because of this situation, a greater degree of supervision is required from head office of the Department, and it is our recommendation that the offices should be monitored by the newly formed Internal Audit Section presently being staffed by the Department.

The Department plans to have its internal auditor perform regular reviews of various cash handling functions and transactions in order to improve control.

Concluding Remarks

This audit of the Provincial Judges Administration Units and Prothonotary Offices confirmed administrative and control weaknesses which had been evident in previous audits by this Office. In fairness to

the Department, many of the control weaknesses were due to the inability to achieve a satisfactory segregation of duties because of the small staff numbers in most of the offices. Also, there was insufficient staff to perform certain tasks such as adequate monitoring and collecting of outstanding fines, and a regular independent audit or check by the Department of many public office routines and transactions.

Although this Report includes a fair amount of detail regarding the deficiencies we have observed, as required under Section 7 of the Auditor General Act, it was most encouraging to note the acceptance of our observations, and the recognition of the need for corrective action. It is our view that the initiatives undertaken to date and those planned represent a fully satisfactory response to the audit.

Department of Community Services
Homes for Special Care

Introduction

Our Office recently completed an audit of Homes for Special Care, for which the Department of Community Services has certain administrative responsibilities. Homes for Special Care are facilities designed to provide supervisory and/or personal care for disabled and elderly people who are unable to live independently in the community. There are 171 Homes in the Province, which include the following types of facilities: Homes for the Aged; Nursing Homes; Residential Care Facilities; Adult Residential Centres; Community Based Residential Facilities; and Regional Rehabilitation Centres.

Adult facilities are governed by the Homes for Special Care Act, passed in 1976, and associated Regulations, passed in 1977. This Act provides the legal basis for the responsibilities of the Department of Community Services.

The Department has a number of specific functions to perform such as:

— processing applications for admission to the Homes, with municipalities assuming responsibility for the actual placing of individuals;

— licensing Homes with four or more residents, after checking to ensure that health and safety standards are being met;

— providing assistance and advice on various operating matters when requested by the Homes; and

— cost-sharing, effective April 1, 1989, for residents who are unable to pay, on the basis of the Department paying two-thirds of costs, and the municipality one-third.

Overall Conclusion — It was our overall conclusion that the systems were adequate to fulfill the responsibilities assigned to the Department under legislation and associated regulations, and also that review, inspection and monitoring procedures were adequate.

The audit was divided into five sections, each of which is described briefly in the following paragraphs with an indication of significant recommendations.

Classifications and Assessments

When a person applies for admittance to a Home, a medical history and a social services report are completed. A person may be assessed as requiring one of five distinct levels of care, depending upon the evaluation of the application and associated documentation. Once admitted, a resident's condition must be monitored to ensure the appropriate level of care is being received.

Based upon the audit reviews and tests we performed, our conclusions were as listed below.

- The system of classification and assessment is adequate to ensure people are assessed to receive the proper level of care for their condition.

- The system for appeals of the initial classification and assessment is adequate to ensure a fair appeal is conducted.

- The system does not provide the Department with adequate information to determine if all residents are being re-assessed on a timely basis.

- The information received by the Department is entered accurately and promptly into the computer information system, but is not received on a timely basis from the municipalities.

We did not review the classification of residents as publicly supported or private paying.

We have made recommendations to the Department regarding the need for a master list of residents in the Homes and to reinforce, to the municipal units, the importance of notifying Classifications and Assessments of all changes in a resident's status.

Monitoring of Homes

An extensive monitoring process, carried out by the Department, ensures there is an appropriate level of care being provided, and that licensing requirements are being met. Inspections are conducted at least semi-annually by field assessment officers who are usually Registered Nurses with public health backgrounds. Their inspections cover both health care and safety matters.

We found that licenses were not issued until all requirements of the regulations had been satisfied. When irregularities were discovered, short-term licenses were issued until the irregularity was corrected; and when irregularities were not corrected, the Department was in a position to refuse further licensing.

We also determined that field assessment officers were performing reviews of the financial records in the Homes, at least semi-annually, to ensure the charges to residents' personal use allowance accounts were appropriate. In addition, on a cyclical basis, in-depth reviews of the personal care allowances and related personal finance matters of the residents were performed by the Audit Services Division of the Department.

We determined that the scope of the audits being conducted by the Audit Services Division was greatly expanded during 1988. This expansion of coverage included more attention to classifications, assessments and municipal claims; and an increased use of analytical review of financial operating results, including per diem rates, and staffing complements of the Homes. It is our view that this type of expanded audit coverage is most appropriate, and a far better utilization of the Department's audit resources.

Capital Requirements

The Department of Community Services is involved in the review and approval of construction and financing of Homes for Special Care. Those proposing to construct, renovate or acquire a building for the purpose of operating a Home must obtain the Minister's approval. A number of provisions in the Regulations to the Homes for Special Care Act, municipal by-laws and regulations, and other building, safety, and health care requirements must be satisfied before approval is granted.

The Department has policies and guidelines on construction and financing of the Homes. These ensure that: the Homes meet all the requirements of applicable building codes; the design maximizes patient comfort and staff efficiencies; costs are reasonable; the Homes are built to certain minimum size standards; and financing is obtained at the lowest effective rate of interest.

We observed that although there are criteria established by which individual requests to expand or construct homes are evaluated, there is no formal long-range plan to ensure orderly development of Homes for Special Care. We also noted that there are no written criteria to determine those areas where the need to construct or renovate is the greatest, although the Department does have informal unwritten policies. Accordingly, we recommended that the Department prepare a formal long-range plan to provide for an orderly development of Homes for Special Care, and also develop formal criteria for the priorization of projects.

Financing Operating Expenses

In 1987, the rate-setting process was revised by the introduction of a committee review process. A provincial Joint Review Committee, and Regional Tripartite Committees were established to administer the process. The six-member Joint Review Committee comprises two appointed by each of the Minister of Community Services, the Nova Scotia Union of Municipalities, and Associated Homes for Special Care. Their mandate is to advise and make recommendations to the Minister of Community Services and to the Regional Tripartite Committees on guidelines to be followed by the latter when reviewing budgets, and also to formulate policies and procedures related to the establishment of per diem rates for the Homes.

The mandate of the Regional Tripartite Committees is to establish per diem rates. The Province is divided into seven regions, and a separate Regional Tripartite Committee has been established for each region. The committees comprise three persons resident in the region, one appointed by each of the three jurisdictions noted above for the Joint Review Committee. The Regulations covering Homes for Special Care contain provisions which allow for the appeal of the decision of a Regional Tripartite Committee. Appeals are heard by retired provincial court judges, appointed by the Minister of Community Services.

The objectives of our review of the financing of operating expenses were to determine the adequacy of the systems being used to monitor per diem rate-setting; review budget submissions and documentation submitted by the Homes; and to assess the appeal process for per diem rates set by the Regional Tripartite Committees.

Certain initiatives concerning the rate-setting process are worth noting.

— In 1988, a survey soliciting suggestions in the rate-setting process was sent to the three major participants.

— A financial policy manual has been developed to assist the Regional Tripartite Committees.

— Information seminars for new committee members were held when the Committees were first established.

There are, however, several major deficiencies in the rate-setting process and administration of it.

- Most submissions of budget information to accompany applications for per diem rate increases are not being received by the prescribed October 1 deadline. For 1988 only 1 was received by October 1; 25 between October 1 and December 31; and 34 after December 31.

- There are no guidelines regarding what information or documentation may be submitted to rate appeal hearings.

- In some hearings, Homes have submitted and had accepted by the judge, additional information and/or new budgets. Accordingly, Regional Tripartite Committees have not been afforded the opportunity to review this data prior to its use in the appeal hearing.

- As of January 1989, five appeals had not been decided within the 30 day prescribed deadline. There were two outstanding from each of June and August, and one from November.

We have made recommendations to the Department and support its current initiatives concerning the provision of financial advisory support to the appeal judges; action on continuation of information seminars; modifying Regulations regarding budget submission deadlines; and the preparation of guidelines for appeal hearings — to restrict the submission of new data that has not been subject to Committee review;

1984 Task Group Report

In June 1984, a Task Group presented a report to the Minister on the results of a study of Nursing Homes, Homes for the Aged, and Residential Care Facilities. The Group's mandate was to review all aspects of these Homes for the purposes of recommending necessary bed requirements for the next six years; identifying problem areas related to legislation, regulations, policies, guidelines and procedures; and proposing options for the resolution of these problem areas and determining the cost implications related thereto.

The report contained 71 recommendations pertaining to Homes for Special Care. They dealt primarily with the three areas of Classifications and Assessments, Standards of Care, and Financing. The objective of our review of the Task Force Report was to determine the extent to which action had been taken by the Department to implement the recommendations made by the Group.

The Department in its review of the report prepared a departmental response, including the implications of all recommendations, and also a proposed implementation plan. The Department has implemented or is in the process of implementing 50 of the recommendations. The remaining ones have been accepted in principle, but not acted upon due primarily to financial restraints.

Departmental Annual Reports

Introduction

We completed a review of annual reports prepared by the departments of the government of Nova Scotia. The last such review by this Office was completed in 1978, and reported on in the March 31, 1978 Report of the Auditor General.

The objectives of the current assignment were:

— to determine whether the requirements and guidelines of the Government of Nova Scotia's Management Guide, Manual 100, Chapter 4, Section 5 relating to annual reports were being complied with; and

— to assess the most recent departmental annual reports available against criteria which we identified.

Departmental annual reports, along with the Estimates and the Province's Public Accounts, provide information to the Legislature and other interested parties on the plans, activities, and performance by departments from a financial and program perspective.

The Government of Nova Scotia's Management Guide states *". . . every Department, Board, Agency and Commission that is 100% funded by the Province of Nova Scotia will prepare an annual report for presentation to the Legislature. The report is to be a summary of the organization's operation during the past fiscal year. Its main purposes are:*

— *to inform members of the Legislature of the organization's activities*

— *to inform taxpayers of the organization's stewardship of the funds that were appropriated for its use*

— *to provide a historical record."*

The Management Guide indicates that the three main parts of the annual report are:

— a narrative describing the purpose of the department and giving highlights of the activities during the fiscal year under review;

— the financial data for the fiscal year using the format of the Management Planning and Budgeting System where it is available; and

— as much information as possible presented in a graphical or statistical manner.

It describes in general terms the requirements and guidelines relating to the annual report preparation, framework, standards, arrangement of content and restraint on costs.

Scope and Criteria

This assignment was limited to an assessment of the annual reports of the departments of government. We did not review reports relating to the same period for all departments, although in most instances the reports were for the period ended March 31, 1986. In those situations where reports were tabled subsequent to our assessment, they were reviewed to identify any significant changes or improvements.

The reports were assessed for compliance with the requirements and guidelines in the Management Guide. Using, as a primary source, criteria developed by the Auditor General of British Columbia for a similar assignment, we identified five general criteria and more specific sub-criteria against which the annual reports were assessed. The following is a list of the general criteria we identified. More detail on the sub-criteria will be found in the body of this article.

- Sufficiency — An annual report should include sufficient information.
- Understandability — Information in the annual report should be presented in an understandable form.
- Reliability — Information included in an annual report should be reliable.
- Timeliness — An annual report should be prepared and tabled on a timely basis.
- Compliance — An annual report should meet prescribed reporting requirements and standards.

For assessing the annual reports, we used a general grade score to assign values for each of the criteria. Although we acknowledge that certain of our criteria are somewhat subjective, we believe that this approach permitted a degree of structure and consistency that would not have been achieved otherwise. With respect to the reliability criteria, we did not perform any specific procedures to verify the information included in the reports reviewed.

Compliance with Management Guide

The following is a summary of the results of our review of the annual reports for compliance with the requirements and guidelines included in the Management Guide.

- Two departments, Attorney General and Finance, do not prepare annual reports. The Attorney General will be preparing a report for the fiscal year ending March 31, 1989. We are not sure a departmental annual report, in addition to the Province's Public Accounts, is appropriate for Finance and therefore are not making a specific recommendation.

- Not all reports are presented (tabled) to the Legislature. While 17 departments prepared annual reports, only 7 were actually tabled in the Legislature. Of the 10 reports not tabled, 3 departments indicated that their annual reports were "deemed" tabled and released to the Members of the Legislative Assembly (MLA's) when the Legislature was not sitting. We could not find any formal definition of, or requirements for, annual reports to be "deemed" tabled.

  We were unable to determine the official status of the remaining seven reports with respect to their being tabled or "deemed" tabled. Although all the annual reports reviewed during this assignment were available through the Government Bookstore, we were unable to determine if all reports were formally released to the MLA's.

- All the annual reports reviewed provided information on departmental activities. In our view, only eight departments provided sufficient information to inform taxpayers of the stewardship of funds appropriated and provided a historical record.

- Only one department had its annual report assembled and delivered to the Department of Government Services, ready for printing, within the required six months of the fiscal year-end. Based on the information available, departments submitted their annual reports to Government Services on average one year after the fiscal year-end for which the reports applied. The range was between 5 and 21 months.

- Less than half of the reports contained financial data for the fiscal year using the required Management Planning and Budgeting System format. The information provided in most reports did not differentiate between current and capital expenditure programs, and provided little or no information on revenues and/or recoveries. Explanations for sizeable variances between the Estimates and actual costs were not presented in any of the reports.

Assessment against Criteria

The following is a summary of the results of our assessment of the annual reports by criteria.

Sufficiency — Of the 17 reports reviewed, only about half of the sub-criteria for sufficiency were adequately addressed. The information in the reports was insufficient to enable the reader to understand the responsibilities of the departments, the programs and goals established to meet those responsibilities, and the activities performed and expenditures incurred in carrying out the programs. The following are the more significant observations in this area.

Of the 17 reports reviewed, only 9 described the department as a whole and/or its mission, along with the statutory requirements for which it is responsible; and of these only 5 did so adequately.

The majority of reports did not adequately present information on client groups or areas.

Only 3 of the 17 reports described the department goals, and only 2 of these did so adequately. Only one report quantified the program goals, and linked the information to the department's mission and client situation.

All reports described the major activities of the department, although only 12 did so adequately. Of the 10 reports that related major activities to program goals, only 7 of these did so adequately. Of the 15 reports providing statistical and trend analyses information, only 6 did so adequately. Of the 13 reports providing expenditure information, only 5 did so adequately.

Less than half of the reports provided sufficient information relating to the effects of their programs. Only one report described the methods used by the department to manage and monitor performance of its programs.

Understandability — Based on our assessment, most reports presented information in an understandable form. Approximately 90% of the identified sub-criteria were adequately addressed. The following are the more significant observations in this area.

Four reports contained excessive program detail not commensurate with the significance or materiality of the programs. Two reports in our view contained considerable redundant and/or unnecessary information.

Of the 17 reports reviewed, 4 properly used graphs and tables. Three reports did not use any graphs and tables. The remaining 10 departments used graphs and/or tables inadequately, either as a result of location in the report or content of information. Summary narratives introducing the graphs or tables were not always included or well positioned in the reports.

Graphs and tables can be used to show a department's activities over a period of years in a simple and concise manner. They are easy for the reader to absorb and understand when properly presented with appropriate summary narratives.

Reliability — All 17 departments preparing annual reports have assigned responsibility for coordinating the preparation and editing of the annual report material to specific individuals. This includes ensuring the overall reliability of the information included in the annual report.

Timeliness — As noted previously, only one department had its annual report assembled and delivered to the Department of Government Services, ready for printing, within six months of the fiscal year-end. Responsibility has not been assigned to monitor such requirements on a government-wide basis.

Compliance — No instances were noted where general or specific statutory reporting requirements were not met. As noted earlier, compliance with the requirements and guidelines outlined in the Management Guide varies.

Concluding Remarks

Annual reports are an integral component in the departmental accountability process. Accordingly, it is extremely important that they be prepared to meet the information requirements of their audiences.

Based on our review and assessment, we have concluded that compliance with Management Guide requirements and guidelines, as well as departmental annual reporting generally, could be improved by:

- ensuring that all reports are tabled (or "deemed" tabled) and provided to MLA's on a more timely basis
- providing more detailed guidelines relating to preparation and submission of reports
- monitoring the submission of reports on a government-wide basis
- enhancing the information included in the reports relating to a department's mission and purpose, programs and goals, client groups, as well as expenditures and revenues, without unnecessarily duplicating information provided in the Estimates or Public Accounts
- enhancing the information describing the effects of programs, and the extent to which goals are met
- describing the methods used to optimize the economy, efficiency and effectiveness of programs.

Department of Finance
Provincial Tax Commission
Health Services Tax Division
and
Gasoline and Diesel Oil Tax Division

Introduction

In 1987 my Office conducted a detailed review of the activities of the Health Services Tax Division, the objective of which was to determine whether the Commission had adequate systems and controls to ensure complete and accurate collection and recording of tax revenues in accordance with the applicable legislation. An article in our 1987 Annual Report described the results of this audit under four headings: account monitoring; appeal process; audit section; and computer environment review.

During the current year, we performed a follow-up review to determine the extent to which the recommendations made in 1987 had been implemented. In addition, we performed audit work in several other areas, including the Gasoline and Diesel Oil Tax Division.

The Provincial Tax Commission, within the Department of Finance, comprises two divisions: the Gasoline and Diesel Oil Tax Division, and the Health Services Tax Division. The Health Services Tax Division carries out responsibilities for the assessment and collection of tax revenues under the Health Services Tax Act. These revenues amounted to over $626 million for the March 31, 1988 fiscal year. The Gasoline and Diesel Oil Tax Division is responsible for the assessment and collection of Gasoline and Diesel Oil Taxes, and these were in excess of $120 million for the same period.

The more significant matters from our follow-up to last year's audit and matters relating to the areas examined this year are presented under the following headings:

Account Monitoring
Appeal Process
Audit Section
Computer Environment Review
Vehicle Compliance
Gasoline and Diesel Oil Tax Division

Account Monitoring

Last year our audit indicated that the collection procedures in the account monitoring section were in need of improvement because of:

— inconsistencies in collection action criteria;

— inadequate information on overdue accounts; and

— inadequate handling of accounts with extended terms.

We made specific recommendations to improve the effectiveness of the Division's performance of its collection and monitoring function.

Our review this year indicated major improvements in the area of account monitoring. We noted, however, that there is still a need for formalization of the guidelines used for accounts receiving extended payment terms, and a more formal approval process for them.

Appeal Process

At the time of our audit in mid-calendar year 1987, 24 appeals were outstanding from previous years. However, by January 1988 all of these appeals had been ruled upon. During our 1988 audit we noticed that 6 out of 10 appeals launched during the period April 1, 1987 to March 31, 1988 were still outstanding. Accordingly, we have again recommended that appeals be addressed in a more timely fashion, to ensure prompt settlement of amounts due to the Province.

Last year we recommended that Government consider the feasibility of establishing an independent body for the reviewing and deciding on Health Services Tax appeals. Although we could find no fault with appeal decisions rendered by the Minister of Finance, the perception of independence and objectivity in these matters might best be maintained by having someone, other than those responsible for the administration of the Act, assigned the task of handling appeals. We make this recommendation again this year.

Audit Section

Our 1987 Report indicated it was our opinion that the audit section's objectives for audit coverage were reasonable, and that the methodology employed was adequate to assess compliance with the Act and associated regulations. We suggested that more extensive use of statistical sampling techniques be employed, and that consideration be given to an expanded audit training and staff development program for their 45 person audit staff.

On the basis of a brief review of the audit section this year, we noted that they have started a training program to enhance the professional development of their auditors.

Computer Environment Review

On the basis of our 1987 audit assignment, we concluded that the Division's controls over the computerized information systems and resources were generally satisfactory. We did, however, make certain recommendations to improve controls, with particular reference to the need for compliance with general access security guidelines of the Department of Government Services.

With respect to a formalized disaster recovery and contingency plan, the Division has initiated satisfactory procedures concerning disaster recovery and is in the process of addressing contingency planning.

Vehicle Compliance

The vehicle compliance unit of the Division is responsible for ensuring that the correct amount of Health Services Tax has been paid on the purchase of a vehicle through a private sale. We examined this aspect of the Division's work in 1988, with the objective of assessing the adequacy of systems and controls to ensure that tax payable on these transactions was properly collected and recorded.

Our audit indicated that there were some shortcomings in the reconciliation of revenues collected by the Registry of Motor Vehicles with amounts subsequently credited to the Health Services Tax Division.

The shortcomings are directly related to the difficulties encountered in implementing the computerized vehicle registration system at the Registry of Motor Vehicles, which is discussed further on page 185 of this Report. Subsequent to our audit, administrative procedures were implemented to remedy this deficiency.

Gasoline and Diesel Oil Tax Division

We did not review the systems and controls at this Division during last year's audit. This year we did so, with the objective of assessing the adequacy of controls over cash remittances, and to review the areas of account monitoring and audit, to determine whether responsibilities under applicable legislation are being adequately fulfilled.

On the basis of our review of the systems and the audit tests we performed, we concluded that controls were adequate for receiving tax remittances and monitoring tax installments, and there were no significant weaknesses in the Division's procedures for audit of taxpayers.

Department of Government Services Property Management

Introduction

During the past year, this Office completed a review of the property management function within the Province. The responsibility for this function rests with the Property and Operation Services Division of the Department of Government Services and the Space Utilization Committee of Management Board. This was our first detailed review of this function.

The Property and Operation Services Division of the Department of Government Services is responsible for leasing all properties used by the departments of government. The Division is responsible for leasing approximately 300 properties throughout the Province with a total area in excess of 1.2 million square feet, the cost of which is about $22 million annually (including operating costs and realty taxes).

Approximately .6 million square feet of space owned by the Province in 17 buildings, 8 of which are located in Halifax, are also administered by the Division. The maintenance and operating costs for these government-owned buildings exceeded $3.5 million for the 1986-87 fiscal year.

The objectives of this assignment were to: gain an understanding of the Government's policies and approach to property management; obtain an explanation for the large increase in rental costs over the last five years; and assess the reasonableness of the lease/purchase agreements for the Joseph Howe Building and One Government Place.

Our major findings and observations are summarized under three captions, namely:

Operation of Property Management Function
Increase in Rental Costs
Lease/purchase Agreements
  Joseph Howe Building
  One Government Place

Operation of Property Management Function

We obtained a reasonable understanding of the Government's policies and approach to property management. There were several areas where we felt that policies could be improved. These are discussed in the following paragraphs.

Long-range planning — The Province does not have a long-range plan for the property management function. Government Services has submitted a three-year action plan to the Cabinet Secretariat, as part of the Province's Program Planning Process, which suggests that a priority during this period should be to "implement a long-range facilities plan on a government-wide basis." At the time of this assignment, the action plan had not been approved.

Commitments — Commitments to lease space in buildings under construction or in the planning process have been made without the benefit of a long-range plan or detailed analysis of the need for the space. Commitments which generally specified a rental rate were made, one to three years prior to occupancy, to lease a total of 112,000 square feet of office space in Founder's Square, Purdy's Wharf, Purdy's Wharf II and Cornwallis Place.

We were informed that these commitments were made in order to encourage local developers to construct office properties in the downtown Halifax area. We have recommended that all commitments to lease space should be supported by a long-range plan and detailed analysis of need for the space.

Tendering — The acquisition of leased accommodation should follow a tendering process to ensure that all interested parties have an equal opportunity to provide the accommodation. During the period encompassed by our audit, the Department of Government Services did not tender or request proposals for leased accommodation.

In mid-1988, Government Services established a policy of tendering for the acquisition of all leased accommodation in excess of 2,500 square feet at both the time of the initial lease and renewal.

Other Observations — We also observed the following in our review of the operation of the property management function.

- Departments are currently not charged for the space which they occupy. We have recommended that they should be charged in order to reflect total costs of an operation and to hold them accountable for the costs of the space which they occupy.

- At the time of our review, vacant leased space consisted of approximately 2,000 square feet in the Terminal Road Building. Government Services management indicated that there were approximately 17,000 square feet of vacant government-owned usable office space in Halifax. This represents approximately one percent of the 1.8 million square feet of government-managed office space. Plans were in progress for use of the available space.

- The Province leases approximately 67% of its accommodation and owns approximately 33%. We note that there is a significantly lower proportion of government-owned office space in Nova Scotia than in the other provinces.

The Department's three-year action plan includes as an objective the development of "a more equitable ratio in the provision of accommodation between the private sector and the public sector." We agree with this objective of the plan, assuming acquisitions are cost-effective.

Increase in Rental Costs

The cost of accommodation rented by the Province (net rent, including operating costs and realty taxes) increased from $9.6 million to $20.7 million during the period from 1982-83 to 1987-88 (an increase of 115%). We determined that approximately 63% of the increase was caused by increases in rental rates, and approximately 37% was caused by increases in the amount of space rented.

- **Rate increase** — The increase in rental rates was larger in the Halifax-Dartmouth area than in the remainder of the Province. From 1982-83 to 1987-88, the average gross rent per square foot (gross rent includes operating costs, taxes and net rent) paid by the Province for office space increased from $9.75 to $18.70 (91% increase) in the Halifax-Dartmouth area. In the remainder of the Province, the average annual gross rent per square foot increased from approximately $6.60 to $11.50 (74% increase).

  Two factors had a significant impact on the magnitude of the increase in rental costs, namely: the high rents paid for new premises which were leased during the period; and the pattern of renewal of leases for some of the major properties rented in downtown Halifax. Some of the leases were renewed twice during the five-year period, which accounted for a greater increase than if they had been renewed only once.

- **Quality of space** — Since March 31, 1983 approximately 165,000 square feet of office space has been acquired in new first class office buildings in Halifax at a cost of approximately $4.3 million per year (average gross annual cost of $26.20 per square foot). Commitments have also been made to acquire an additional 30,000 square feet in Purdy's Wharf II. Generally, first class office space is acquired at a premium over the cost of space in older buildings.

  We acknowledge that the Department has developed criteria for accommodation which reflect minimum standards for items such as air quality, access for the physically disabled, and other items which contribute to increased productivity of the civil service. These criteria are used in evaluating tender responses and will result in an upgrading of certain of the Province's accommodations in both owned and leased premises.

However, there are no long-range policies or guidelines regarding the type of office space required in the future. It is our contention that there should be a policy with respect to the optimum mix of first class versus lower priced office space.

- **Space increase** — From 1982-83 to 1987-88, the amount of space rented by the Province increased by approximately 250,000 square feet or 25%. This increase in space is principally attributable to requirements for expanded Government programs, such as young offender and drug dependency programs; the need for larger court facilities; and the move of some departments from inadequate space in government-owned buildings to leased premises. The Department has begun a program of upgrading certain of its owned premises and is making some owned space available for short-term space requirements. In addition, there has been a 5% increase in the number of funded positions in the civil service of the Province.

Lease/purchase Agreements

In July 1986, the Province signed a lease/purchase agreement for One Government Place which covers a 25-year period. In July 1987, the Province leased the Joseph Howe Building in Halifax from a local developer for 25 years. The lease contains a purchase option which expires on July 31, 1989.

We reviewed the transactions to gain an understanding of the basis for entering into the agreements and assess, if possible, the reasonableness of the lease rates. In addition, we had the objective of determining whether the purchase option for the Joseph Howe Building should be exercised before its expiry date.

Our analysis of these transactions relies heavily on the concept of time value of money, specifically the present value of amounts payable in the future. Using this concept, we attempted to determine what the stream or flow of future payments related to these transactions is worth today.

For example, if present value techniques were not used, one might conclude that a payment of $1,000 per year for ten years would be equivalent to a payment of $10,000 today. In fact, this stream of payments would be worth far less than $10,000 because one has to wait from one to ten years for each of the $1,000 receipts.

In this example, assuming an interest rate of 10%, the $1,000 to be received in the fifth year is equivalent to $621 today because $621 invested at 10%, compounded annually, would grow to $1,000 by that time. Similarly, the $1,000 to be received in the tenth year has a present value of $386 — the amount which, if invested at 10% compounded annually, would grow to $1,000 in ten years. In this example, the present value of the total of the ten payments is $6,145 — the amount which could be invested today and enable the withdrawal of $1,000 at the end of each of the next ten years with no balance remaining at the end of that time.

The concept of present value is a well-recognized technique, used extensively in the analysis of real estate and other types of financial transactions. The rental payments for each of the properties will be converted (or discounted) to their present value today — an amount significantly less than the simple sum of the payments.

A critical element in the calculation of present value is the choice of an appropriate discount rate. The discount rate usually represents the cost of borrowing funds (interest rate) and it can vary significantly over time.

Joseph Howe Building

The Province has been renting space in the Joseph Howe Building since 1974. In 1987 the Province was renting approximately 81,300 square feet of the 114,210 square foot building. On July 30, 1987 the Province signed a 25-year lease for the entire building, with a purchase option which expires on July 31, 1989.

Purchase option — The purchase option involves payment of an additional $.75 per square foot per annum over the 25-year term of the lease. The decision to exercise the option must be made by July 31, 1989.

The present value of these payments is approximately $700,000. If the option is exercised, title to the land and building would transfer to the Province in 2012. We believe that the Government should exercise the purchase option prior to its expiry date.

Lease rate — The lease for the Joseph Howe Building requires payments of $18 per square foot (excluding operating costs and taxes) for the first 10 years, and $22 per square foot (net) for the remaining 15

years. The purchase option requires an additional payment of $.75 per square foot per annum over the entire term of the lease. Budgeted operating expenses, including the landlord's management fee, amount to an additional $8.57 per square foot. Assuming the purchase option is exercised, the current gross cost of leasing the building is $27.32 per square foot per annum.

Although our analysis indicates that the rental rate paid for the Joseph Howe Building is slightly higher than that paid for office premises of comparable quality at the current time, there is likely to be a long-term advantage in fixing the cost of renting this space for a 25-year period. Department management indicated that the location of the Joseph Howe Building (across the street from Province House) makes it more valuable to the Province than other buildings in the downtown area which are further removed from Province House.

To determine whether the lease rate is reasonable, we compared three concepts of value, namely:

- the present value of the payments to be made under the current lease/purchase agreement;
- the market value; and
- the present value of the payments to be made if the property was leased, without a purchase option, from the previous owner for 25 years assuming moderate escalation of lease rates.

Present value of lease/purchase agreement — The present value of the payments to be made under the lease/purchase agreement (excluding operating costs and taxes) is dependent upon the choice of an appropriate discount rate. A firm of independent appraisers hired by the lessor to appraise the building in July 1987 used 12.25% as the appropriate discount rate under prevailing market conditions at the time. This results in a present value of $17.8 million assuming the purchase option is exercised.

Market value — We were unable to determine the market value of the property at the time the lease/purchase agreement was signed. A firm of independent appraisers used an "income approach" to arrive at a value of $17.5 million for the property. We were able to determine that the lessor obtained a mortgage loan of $16.6 million on the property in August 1987. The "income approach" was based on the discounted

value of the future lease/purchase payments by the Province. Since the cash flow had been assured prior to obtaining the mortgage, it would largely determine the amount of mortgage funds to be made available. Both the appraised value and the mortgage figures were, therefore, based upon the agreement with the Province and thus not an objective indicator of market value.

Present value of lease payments based on 1986 quotation — We estimated the cost to the Province of leasing the property for 25 years from the previous owner of the building. This estimate was based upon an annual rate of $13.50 per square foot (excluding operating costs and taxes) for five years quoted in a letter from the property managers dated February 19, 1986, and assumed the signing of four additional five-year leases (for a total of 25 years). Our estimate of the present value of the payments to be made under such an arrangement was made using escalation factors of 5% and 6% per annum (compounded) and a discount factor of 12.25%. This resulted in a present value of $15.9 million, assuming 5% escalation, and $17.0 million assuming 6% escalation of rental payments over 25 years.

Conclusion — The present value of the payments to be made under the lease/purchase agreement is $17.8 million, compared to a present value of $15.9 million for the payments to be made under a lease using rates quoted in 1986. A discount rate of 12.25% was used for both these calculations, while an escalation rate of 5% was used for the lease.

The difference between the two present values is $1.9 million which represents the premium paid to obtain ownership of an office building in downtown Halifax at the end of 25 years. (Note that the amount of the difference would vary from $1.9 million if the escalation rate for the lease was greater or less than 5% and if another discount rate was used). This amount does not appear to be unreasonable.

There was no evidence of consideration of alternative sources of space or of an attempt to purchase the property by the Province. It was not within the scope of our audit assignment to determine whether an equivalent amount of space or an acceptable alternative could have been obtained in another suitable location for a lesser price. The decision to choose a location in downtown Halifax within the "precinct of Province House" was a policy decision upon which I have no comment.

One Government Place

The Province signed a five-year lease for space in One Government Place when the building was opened in 1985. At that time, the building was owned by a partnership of a local developer and an insurance company.

The partnership agreement specified that if either party received an offer to purchase the building, then the other partner had the right to match the offer and purchase the building. If the second partner did not exercise that right, then the building could be sold.

In 1986, the insurance company received an offer to purchase the building from a foreign investor. At that time, the Province was negotiating to lease approximately 70% of the building. The location of the building near Province House was very convenient, and it was indicated that the Government was not anxious to have the ownership of the building pass to foreign interests. Therefore, a lease/purchase agreement was negotiated with the local developer which enabled him to match the offer from the investor and obtain ownership of the building.

On July 3, 1986 the Province signed a 25-year lease/purchase agreement on One Government Place for the period from June 1, 1986 to May 31, 2011 when title will pass to the Province.

Lease rate — The lease/purchase agreement for One Government Place specifies rental payments of $24 per square foot (excluding operating costs and taxes) for the first 10 years and $26.40 (net) for the remaining 15 years of the period covered by the agreement. Budgeted operating expenses amount to approximately $9.40 per square foot, for a total gross occupancy cost of approximately $33.40 per square foot.

The net rental rate is the highest paid by the Province in downtown Halifax and is substantially more than the rate for the Joseph Howe Building. We were advised that the reasons for this difference are that One Government Place is newer (by 11 years), and that it incorporates better construction than the Joseph Howe Building. One Government Place also includes fewer floors than the Joseph Howe Building, which led to a higher construction cost per square foot.

The lease/purchase agreement stipulates that title to the property will pass to the Province at the end of the 25-year term. The rental rate incorporated in the agreement is therefore not comparable with the rate contained in leases which do not include this provision. The fact that the rental rate on this property is fixed for a 25-year term must also be considered when comparisons to other properties are made.

To determine whether the lease rate is reasonable, we attempted to compare two concepts of value for the property, namely the present value of the payments to be made under the current lease/purchase agreement, and the market value.

Present value of lease/purchase agreement — The present value of the payments to be made under the lease/purchase agreement (excluding operating costs and taxes) is dependent upon the choice of an appropriate discount rate. A firm of independent appraisers hired by the lessor to appraise the building in June 1986 used 12.31% as the appropriate discount rate under prevailing market conditions at the time. This results in a present value of $10.1 million.

Market value — A firm of independent appraisers used an "income approach" to arrive at a value of $10.5 million for the property. We were able to determine that the lessor obtained a mortgage loan of $10.5 million on the property in July 1986. The "income approach" was based upon the discounted value of the future lease/purchase payments by the Province. Since cash flow had been assured prior to obtaining the mortgage it would largely determine the amount of mortgage funds to be made available. Both the appraised value and the mortgage figures were, therefore, based upon the agreement with the Province and thus not an objective indicator of market value.

We did not examine a copy of the offer received by the insurance company from the foreign investor, but were told by senior management at the Department of Government Services that the amount of the offer was $11.5 million.

Conclusion — A comparison of the present value of the payments to be made under the lease/purchase agreement ($10.1 million using a 12.31% discount rate) to the offer received from the foreign investor ($11.5 million) indicates that the amount paid by the Province to obtain ownership of the property at the end of 25 years is not unreasonable.

There was no evidence that the Province considered alternative sources of space. It was not within the scope of our audit assignment to determine whether an equivalent amount of space or an acceptable alternative could have been obtained in another suitable location for a lower price. The decision to choose a location in downtown Halifax within the "precinct of Province House" was a policy decision upon which I have no comment.

Concluding Remarks

One of the most significant observations resulting from our review of the property management function at the Department of Government Services is that the Department has prepared a three-year action plan for the function which addresses many of the issues which we believe require attention, namely:

- The implementation of a long-range facilities plan on a government-wide basis, including the design of a public tendering process for leases
- The establishment of a user-pay policy for the use of common services
- The development of a more equitable ratio in the provision of accommodation between the private sector and the public sector

In addition, we submit that Government should not be entering into long-term commitments for space without a long-range plan for the facilities management function, detailed needs analysis and consideration of alternative sources of space.

We determined that the substantial increase in rental costs between 1982-83 and 1987-88 was primarily because of increased rental rates for properties in the Halifax-Dartmouth area; an increase in the quality of office space occupied by government departments and agencies; and an increase in the amount of space occupied by government. There should be a policy with respect to the optimum mix of first class and lower priced office space for government.

In our review of the lease/purchase arrangement for the Joseph Howe Building, it was not possible to arrive at a comparative market price due to the unique nature of the property. We were, however, able to arrive at a present value for the payments to be made over the term of the lease. Our review of the lease/purchase arrangement for One Government Place was based upon a comparison of the present value of the required payments with a purchase offer made by a foreign investor. In our view, the amounts being paid under these two agreements do not appear to be unreasonable, particularly because ownership of the properties will pass to the Province in 25 years.

Department of Health and Fitness
Medical Services Insurance

Medical Services Insurance (MSI) is a government-funded health insurance plan for Nova Scotia residents. By agreement with the Minister of Health and Fitness (formerly Health), Maritime Medical Care Corporation (MMC) performs the administrative functions relating to the medical care programs under the insurance plan.

Audit Review of 1987

In 1987, we performed an extensive examination of the administration of this plan by MMC. The specific objectives were to evaluate the controls surrounding the Corporation's computer operation, and to review and assess the processing and audit of claims, including an analysis of the appropriateness of the internal audit function at MMC. The results of this examination and our recommendations were reported in an article included in our 1987 Annual Report.

Recently we performed a brief follow-up review to determine the status of the recommendations included in our 1987 Audit Report. We were pleased to note:

— positive action was taken to implement the recommendations regarding analysis requirements for equipment acquisitions, and control standards for access to computer systems;

— improvements in the claims audit function concerning sampling techniques, verification of claims submitted, and the degree of audit coverage in certain areas; and

— the action taken to document audit guidelines and results.

We had recommended that the Department should set up an independent internal audit capability responsibile for the ongoing review of all aspects of public health insurance programs. We have been advised that approval for this function has been given, and that funding will be effective April 1, 1989. The Corporation is currently addressing the control weaknesses in its computer systems, relating to disaster recovery and contingency plans.

Claims Administration

During 1988 we reviewed with senior management of Maritime Medical Care Corporation certain aspects of their administration of the claims process. It is our opinion that more precise guidelines and standards should be developed to permit greater control over utilization of services.

Presently, MMC does not have what we would consider adequate guidelines and standards to deal effectively with certain aspects of claims administration. Accordingly, we have recommended that efforts be undertaken to develop appropriate guidelines and standards, accompanied with a commitment at policy level, including amendments to the legislation and regulations associated with the MSI program, if necessary.

In addition, it is our opinion that MMC and its Review Committee should be provided with enhanced staffing resources for audit and investigative matters. To effectively administer, from a control standpoint, a program which currently costs over $280 million annually requires greater resources in these two areas.

Both Maritime Medical Care Corporation senior management and staff of the Health Services and Insurance Commission are in agreement with our two recommendations. To date it has not been possible to deal with these issues. It is our understanding, however, that both organizations intend to address them in the near future. It is our contention that these should receive a high degree of priority because of their significance and the associated risk of substantial claim excesses if the appropriate guidelines and controls are not present.

Department of Lands and Forests
Nurseries and Air Services

Introduction

The Department of Lands and Forests is charged with the administration of the Crown Lands Act, the Forests Act, the Wildlife Act, the Provincial Parks Act, and various other statutes. From these Acts the Department derives the authority to administer and manage crown lands, implement forest management programs, operate forest tree nurseries, protect the forest, develop and operate a system of parks, and protect and conserve wildlife and other resources.

The Department has undergone some reorganization since our last audit, including major revisions in its accounting systems. The primary focus of our audit, therefore, was to review and evaluate these accounting systems and controls.

The secondary focus was to review management procedures and controls in selected areas. Two operations were reviewed, the Nurseries Division and the Air Services Division. This review consisted of identifying the objectives of these operations, identifying the procedures and controls used to evaluate whether the objectives were being achieved, and evaluating the reasonableness of these controls.

Accounting Systems

The objective in reviewing head office accounting systems was to determine if internal controls were adequate to ensure:

— all funds due were received, deposited intact, and completely and accurately recorded;

— purchases and payments were properly approved, and completely and accurately recorded; and

— only bona fide employees were paid, payments were made only for work performed, and payrolls were accurately recorded.

We observed that controls for purchases, disbursements, and permanent payrolls were appropriate. We specifically noted that:

— there was proper approval of purchases and payments;

— there was good use of edit and control total routines in processing transactions;

— there was an adequate segregation of duties surrounding purchases and payments;

— there was appropriate checking and verification of goods received and invoices paid;

— there was approval for all civil service hiring; and

— there was regular review of finance expenditure reports by field officers to ensure payroll expenditures were appropriate.

We did have some recommendations to make regarding a better segregation of duties for revenues and receipts, and also for casual payroll disbursements. We recommended improvements with respect to verification procedures for casual employees.

Nurseries

Three forest nurseries are operated by the Department at Strathlorne, Lawrencetown and Wittenburg. At the time of our audit a new nursery was being constructed at Middle Musquodoboit.

Our general impression was that the Nursery Division is striving for and achieving growth and development, while maintaining control over day-to-day operations and quality of production. We noted management procedures and controls being used effectively to accomplish the Division's goals. More specifically, we noted:

— clearly defined objectives, policies and guidelines;

— a weekly monitoring of production quality;

— frequent inspections of all Department nurseries by Division management;

— good use of result indicators;

— regular financial and operational reporting to senior management; and

— other prudent management practices.

We also examined the accounting systems and controls at the Division. While many areas were adequately controlled, we noted a general weakness in the area of nursery revenues and receipts. This involved inadequate segregation of duties, and the need for additional verification and reconciliation procedures, as well as other improvements in the accounting control systems.

Our audit was performed in early 1988, and we conducted a follow-up review in late November to determine what action had been taken on our recommendations. The Department is developing a computer program for shipping, billing and inventory control, and contemplating a move of certain clerical duties. When both of these are completed, the problems relating to segregation of duties should be resolved.

Air Services

Air Services Division operates four helicopters and three fixed-wing aircraft. The primary function of the Division is to provide air support and services to government departments and agencies. Actual flight hours for both 1986-87 and 1987-88 were utilized 52% on behalf of Lands and Forests, and 48% for other departments, agencies, and government corporations.

Our objective was to assess how accounting and management controls contributed to the achievement of the Division's goals. We did not address the nature and efficiency of air services provided.

In general, we found the accounting systems and management controls to be adequate in this Division. We observed that satisfactory control was achieved as a result of:

— well-defined objectives;

— well-documented policies and guidelines, including a comprehensive Operations Manual;

— general recognition of key resources, resource restrictions, and key success factors;

— a good use of result indicators, including the monitoring of flight hours, as well as maintenance expenditures and procedures;

— regular financial and operational reporting to Department management; and

— other management practices for the operation of this Division.

We made recommendations regarding the reconciliation of aircraft flight logs to flight sheets and invoices; totalling and reconciliation procedures relating to the monthly billing summary and aircraft utilization report; and segregation of expenditures of certain aircraft.

We determined from our follow-up review in November 1988 that all our recommendations concerning Air Services had been implemented.

Nova Scotia Business Capital Corporation Receiverships

Introduction

Effective April 1, 1988 the Nova Scotia Business Capital Corporation, a crown corporation established under Order in Council 88-296, became operational, assuming the administrative and lending functions previously conducted by Industrial Estates Limited and the Resources Development Board.

During 1988, we conducted a special examination dealing with receiverships performed on behalf of these predecessor organizations, over a five-year period from 1983 to 1988. This encompassed a review of 34 receiverships, 18 initiated by Industrial Estates Limited, and 16 by Resources Development Board. For receiverships completed, the total amount of the financial assistance outstanding at the date the receiverships began plus advances to receivers during the receiverships totalled $38.2 million, of which $17.8 million was recovered during the receivership process, resulting in a residual loss of $20.4 million. The total receiver fees, both for those concluded and those still active, was $3,352,801.

There were two objectives for this assignment. First, to ascertain the policies and practices followed by Industrial Estates Limited and Resources Development Board concerning receiverships. Second, to evaluate, if possible, these policies and practices with respect to specific segments of the receivership such as appointment, monitoring, reporting, and remuneration of receivers.

At the time of our audit, management of the Nova Scotia Business Capital Corporation was aware of the need for formal policies regarding the appointment of receivers and the monitoring of receiverships. These they expect to develop in early 1989, with the assistance of the recommendations in our audit report on this assignment. In the meantime, however, organizational changes have been made at the Corporation to improve their administration of receiverships.

It is worth noting a distinction between the approaches to receiverships of the two predecessor organizations.

- The Resources Development Board dealt principally with companies having a significant impact on the economy of the Province, and in many cases, the specific industry. It was important for these companies to continue, if at all possible; consequently the primary objective of many of these receiverships was to sustain the company until new arrangements could be made.

- Industrial Estates Limited often dealt with companies of lesser magnitude in the industry. Consequently, the failure of the company would usually not have the same impact on the economy as might some of those of the Resources Development Board. The main objective of their receiverships was frequently to liquidate the company, as the owners had already closed the operation. Where possible, Industrial Estates Limited operated companies as a going concern, until another owner could be secured, in order to reduce their own losses.

There is no Federal law which deals with the administration of receiverships. The only relevant provincial legislation is in the Nova Scotia Companies Act, Section 65 (F), which states that receiverships must be conducted *"in a commercially reasonable manner"*, and Section 65(H) which requires a receiver or receiver-manager to *"immediately notify the Registrar [of Joint Stock Companies] of his appointment and discharge."* The practice of receivership has evolved over time, and has been directly influenced by legal cases on the subject.

There are two types of receiverships. *Private Appointment:* In this case the receiver is appointed by a secured creditor, such as a bank or government lending agency, pursuant to powers contained in security documents given by a debtor to the secured creditor. A privately appointed receiver is accountable to the secured creditor and takes directions from the secured creditor subject to the receiver's responsibilities to all creditors of the debtor company. *Court Appointment:* In a limited number of situations a secured creditor will make application to court for the appointment of a receiver. If the appointment order is granted, the court-appointed receiver is a court officer and must report to and take directions from the Supreme Court of Nova Scotia. This procedure provides a significant measure of independence for the receiver since the court order appointing the receiver outlines the receiver's powers and duties. All major decisions must be approved by the court and, upon completion of the receivership, a court hearing is held to approve the receiver's activities (including fees) and to formally discharge the receiver. Court appointments in Nova Scotia are used mainly in situations where the debtor's assets include land and the purchaser of the assets will not accept a deed from a privately appointed receiver.

On the basis of our review of the 34 receivership files, discussions with senior officers at the Nova Scotia Business Capital Corporation, at the Department of Industry, Trade and Technology, and other inquiries and research activities, we have derived an appreciation of the policies and practices followed. We have also developed a point of view regarding the appropriateness of certain practices, or the lack of them, and have presented a series of recommendations to the Corporation. These are classified under three captions:

Appointment
Monitoring
Reporting

Appointment

The nature of a receivership is such that, in most cases, it is essential that as soon as an appointment is made, the receiver must immediately attend upon the premises of the debtor company. There is usually no time to prepare a proposal, solicit tenders, and agree upon a fixed price. This urgency is essential, in order to preserve assets and minimize losses.

Accordingly, often the only communication at the time of a receivership appointment is a brief letter from the creditor advising the receiver of the appointment. This letter generally does not contain any specific instructions with respect to the conduct of the receivership. The appointments are usually made on the basis of a historical relationship between the lending body and receivership firms. Of the 34 files we examined, 17 receiverships were performed by one firm, 2 firms performed 5 each, and the remaining 7 receiverships were done by 4 other firms.

No standard practice exists for the appointment of a receiver, and the formal agreement ratifying it. It is not uncommon for a verbal agreement to be the initial contact with the receiver, confirmed by subsequent correspondence. Often, within two weeks to a month, the receiver reports what has been performed to date to protect the assets, and carry out specific decisions agreed upon by the receiver and the lender. The report includes a summary of the creditors' positions, and an indication of future action and/or alternatives to be considered. This latter information may be included in what is often termed "The Action or Operating Plan". It was noted that in many cases the receivers obtain only limited written instructions from the lender with respect to their specific expectations concerning the conduct and results of the receivership.

In the 34 receiverships we examined, 15 included an action or operating plan, but 19 did not. The contents and format of these action plans varied considerably, and only one included reference to projected fees for either the total assignment or completion of the receivership.

Acknowledging that it is not practical to go to tender or request proposals before the awarding of most, if not all receiverships, we have recommended to the Nova Scotia Business Capital Corporation that:

— a formal written report, to include an operating plan, be required of all receivers;

— this plan be submitted, except under special and agreed upon circumstances, within two to four weeks from commencement of the receivership; and

— the Corporation indicate clearly to the receiver, the reporting and operational requirements and expectations of the Corporation with respect to the specific receivership.

Monitoring

In the performance of this audit review, we were particularly interested in the monitoring process being used by the lender, for two reasons. One was the size of the loans and losses, $38 million and $20 million respectively; and second the fees paid, almost $3.4 million. From the lender's point of view monitoring is the key to successful administration of the receivership, both for an awareness of and control over the assets, and to ensure the fees being charged are appropriate and reasonable.

Our review of the monitoring process indicates that there are significant deficiencies within it, and there is a need for a more formalized and rigorous monitoring process. We have the following observations.

- Since operating plans were not consistently prepared by the receiver, the lending agency often did not have sufficient information to monitor performance and progress.

- Although account executives of the lender were the principal contact with the receiver, and maintained a fair degree of verbal contact with the receiver, the results of discussions and meetings were not always documented. This was primarily the situation with respect to Resources Development Board receiverships.

- There were two cases where receivers, in our view, did not submit reports on a timely basis.

- There was one instance where a receiver's billing for fees was not submitted monthly, but in batches. In addition, the fees were deducted from monies on hand prior to approval by the lender.

- Receiver billings normally indicated activities performed such as taking possession of assets, attending foreclosure sales, and similar activities. Only 16 of the 34 receiverships we reviewed provided specific dates, hours and staff levels used by function performed. Of 8 receiverships which extended beyond one year, the hours spent by the receiver were not reported.

It is recognized that there are no standard fee structures for this type of work, and that each case is somewhat unique. However, we believe it is the responsibility of the lending organization to assess the need for and the time spent on certain aspects of the receivership, as well as the reasonableness of the fees being charged for specific functions. In this respect, it would not seem too much to expect a detailed accounting to support the fee billing from the receiver.

We have seen instances where the invoice for receiver fees shows by day, the functions performed, indicating the time spent on each, and the person performing such function. The total hours and individual billing rates for staff engaged on the assignment are summarized. This would seem to be a reasonable expectation considering that the work is being performed by accountants, and that the billings are usually greater than $10,000, and on occasion in excess of $100,000.

As previously indicated, the receiver is rarely in a position to estimate fees in advance of the commencement of a receivership. But we have noted that one means of controlling or assessing the reasonableness of fees is through the submission of estimates at appropriate times during the course of the receivership; and especially by the submission of detailed information to support billings both during and at the end of the receivership. From our review of the files, and discussions with staff at the Corporation, and the Department of Industry, Trade and Technology, it would seem that fees charged by the receivers have rarely, if ever, been questioned.

Receivers submit invoices to be approved for payment of their fees. The payment is taken from monies under the administrative control of the receiver, and a separate cheque is not issued by the lender for these fees. However, we have seen several instances where the receiver has taken fees from funds under their administration without first submitting an invoice for approval.

In a decision rendered by the Trial Division of the Supreme Court of Nova Scotia, on September 24, 1986, regarding a court-appointed receiver, the Honourable Mr. Justice Nathanson clearly indicated the detail he considered necessary for receiver fee billings. He said *"I decline to approve the accounts of a receiver which does not disclose in detail, the name of each person who rendered services, the dates on which these services were rendered, the time expended each day, the rate charged, and the total charges for each item of services actually rendered."* He also stated *"It may not be possible for the court to be sure*

that the amounts charged are valid and appropriate but, at least, full disclosure will help anyone who might be inclined to contest the application or claim against the receiver to assess the factual situation and, thereby, minimize the potential for abuse that exists whenever facts are kept secret."

Accordingly, we recommended that:

- All billings for receiver fees must be supported by detail showing: by day — function performed, staff performing it, and time spent; and a summary by person showing total hours, hourly rate and total cost per person being billed.

- All billings for receiver fees must be submitted to, and approved by the lender before funds are disbursed by the receiver in payment for these fees.

Reporting

There are three types of reports which could be submitted during the course of a receivership. One would be the initial report and/or operating plan prepared during the early weeks of a receivership. A second would be the final report at the conclusion of a receivership. A third type would be interim reports in receiverships which extend over periods of more than four to five months.

In our review of the receiverships, we found there were five cases where periodic reports were not submitted by the receiver. In two cases where periodic receiver reports were submitted, they were not submitted on a timely basis.

We recommended the following practices in reporting be adopted, as we saw positive evidence of them in certain receiverships.

- There should be a requirement for an initial report within two to four weeks of the commencement of a receivership, to include an operating or action plan.

- There should be an interim reporting requirement, indicated in the initial correspondence between the lender and the receiver, which specifies frequency and contents of reports.

- The interim reports should be at least quarterly, except in very special circumstances which might warrant either a more frequent or less frequent reporting during certain phases of a receivership.

- The interim reports should contain: background relating to the receivership and information on action taken with respect to possession and protection of the assets, either in summary form or reference to previous reports; key decisions made with respect to the administration of the receivership; updates on liquidation or operating strategies as applicable; and preliminary information on expected realization values of assets, as applicable.

- In cases of ongoing receiverships where the receiver is actually operating the business, there should be a reasonable degree of information concerning significant operating matters such as: management performance; industrial relations matters; customer and marketing issues; plant production and productivity data; negotiations for various contractual arrangements in connection with the business operation; and information relating to asset realizations which have taken place and those which might be anticipated.

- There should be an indication of projected net loss or exposure to the lender, which would include three items: loss on original loan; unrecoverable expenses of operating the receivership; and receiver and/or manager fees.

- A final report on the receiverships should be prepared on a timely basis and provide a comprehensive coverage of all significant aspects of it.

Specific Instances

In our review of the 34 receivership files, there were 2 instances which in our view warrant further discussion. In both cases, we believe certain aspects of the administration of the receivership were deficient, especially when one considers the size of these 2 receiverships. The tabulation of findings and observations relating to these receiverships should serve to demonstrate the need for more formal and rigorous policies and practices on behalf of the lender, that is Government, in its dealings with those to whom receivership appointments have been given.

Suttles and Seawinds — The following are significant events and observations derived from our review of the receivership files at Resources Development Board in connection with the receivership of this company.

- On December 13, 1985 a receiver was appointed by the Royal Bank of Canada. On December 17, 1985, the Province appointed its own receiver, who ultimately in February 1986 assumed the receivership responsibilities for all creditors.

- In January 1986, by Order in Council 86-44, Government authorized funding in the amount of $800,000 for receivership and other costs associated with the proposed operating receivership of Suttles and Seawinds Limited until no later than April 30, 1986.

- At the same time the receiver was requested to engage a firm of management consultants to develop a possible financial restructuring of the company, with a deadline of April 30, 1986 to locate, negotiate and finalize an equity investment. If no new equity investment was secured by April 30, 1986, the receiver was instructed to wind down the operation, liquidate inventory and collect accounts receivable. The consultants indicated that the Province's loss on the receivership would be less than $100,000, if this liquidation took place.

- Unable to search out an equity investor for the company, the consultants on April 28, 1986 recommended that the receiver be instructed to wind down the operation.

- The Department of Development agreed to a month extension to May 31, 1986 to provide the receiver with further time to arrange for an equity investment. This was not forthcoming, and on June 9, 1986 the receiver was requested to place advertisements seeking proposals. The receiver continued to operate the business.

- Other requests from Resources Development Board to the receiver, to advertise for proposals in order to conclude liquidation of the assets, were not followed.

- By Order in Council 87-764 June 30, 1987, the sale of inventory, fixed assets and miscellaneous items, and settlement of guarantees to take place not later than 30 days from that date, were approved.

- The receiver was extremely tardy in submitting reports on the receivership, in spite of many written requests to do so. Written requests to update the receiver's report of October 14, 1986 were made on March 27, 1987; April 29, 1987; and January 20, 1988. The receiver finally issued a report dated February 15, 1988.

- The February 15, 1988 report from the receiver provided certain financial information, but other issues remained outstanding. A subsequent report was submitted by the receiver to the Nova Scotia Business Capital Corporation on May 27, 1988. In January 1989 there was one outstanding matter regarding this receivership. In addition, there has never been a final approval of receivership fees by Resources Development Board.

- The ultimate loss on this receivership amounted to $1,127,164. The receiver and manager fees for the period from December 1985 to February 1988 amounted to $352,890.

All of the above would seem to indicate the need for more clear-cut guidelines and formal agreements with receivers at the outset of a receivership. During the course of this receivership, it would be an understatement to say that officials of the Board experienced significant frustrations in their dealings with the receiver concerning their inability to obtain current status reports, and compliance with their instructions, matters to which they were entitled, in my view. Moreover, there was no formal approval by Government to continue the operating receivership beyond April 30, 1986, as required by the Report and Recommendation of January 13, 1986, supporting Order in Council 86-44.

Halifax Industries Limited —This is a receivership which has existed since December 1984, and is still operating because of the need to meet certain warranty commitments. The total cost of receivership fees to this point is $1.7 million.

Several observations arising from our review of this receivership are worth noting.

- Invoices were not submitted on a regular basis. Staff officials of the Department of Industry, Trade and Technology (formerly Development) made written requests for invoices on numerous occasions which were not responded to by the receiver. At the time of our audit in late calendar year 1988, only invoices to March 31, 1988 had been submitted, and there were no invoices on file for the period from May 1985 to December 1985.

- Receiver fees were often paid out of funds under the control of the receiver without prior submission of an invoice for approval by the Department. In a January 3, 1985 letter, a request was made by the receiver to do this on an ongoing basis, subject to a monthly statement with full details of actual time spent. This requirement was met only during the initial five months of the receivership.

- The completion of the refit of a Canadian Coast Guard vessel was under the administration of the receiver. In late 1986, the Province was informed by the receiver that there was a $2 million overrun in this contract, which apparently came as a total surprise to the receiver and to shipyard management. This resulted in an unanticipated additional cost to the Province. At the time of this incident, both the receiver and the new management of the shipyard (Halifax-Dartmouth Industries Limited) had responsibilities relating to this refit contract. Since there was a degree of division of certain responsibilities between these two parties, unawareness of this additional cost could have been the result of inadequate communication between them.

Concluding Remarks

Our review of receiverships covered a period of five years from 1983 to 1988, and included 34 receivership files. It showed that there were no formal guidelines or administrative policies regarding:

— the appointment of receivers;

— the monitoring of receiverships by the lender with respect to both progress on the assignments and approval of receivers' fees; and

— the reporting by the receiver on progress and results on a timely basis, including both form and content of the reports, and details of fee billings submitted for payment.

Without guidelines and policies relating to these matters, in our opinion, it has not been possible for Government to fulfill properly its responsibilities regarding the administration of and control over receiverships. Considering the magnitude of receiverships performed

on behalf of the Province, and the fees paid for this service, the following recommendations should be implemented.

- The Corporation should indicate clearly to the receiver, the reporting and operational requirements, and expectations of the Corporation with respect to the specific receivership.
- Guidelines should be provided for staff of the lender, in order to assist them in the administration of this function.
- Regular reports should be provided by the receiver, and the contents of these reports specified as to information required.
- More detailed information for fee billings should be provided by the receivers; and these billings should be carefully reviewed by the lender for reasonableness as to functions performed, and the charges associated with them, prior to approval for payment.

Result Indicators

Introduction

During 1988 we completed the second phase of our examination of the use of result indicators. The objectives of the two phases were as follows:

Phase I — A preliminary assessment with a view to obtaining:

- an overview of the result indicators process;
- an understanding of the role of Management Board in the process; and
- an awareness of the stage of implementation which the various departments had achieved.

Phase II — A review at the departmental level of:

- the appropriateness of the particular result indicators developed in each department; and
- the uses of the results information in the departments.

Background — In our 1987 Annual Report, we provided a definition of result indicators as being "selected measures of efficiency and/or effectiveness of programs and support activities", and suggested that result indicators may generally be found at three levels of output, namely: operational; program; and program effect.

The following meanings were applied to these three levels of output, in our 1987 Report.

> **Operational outputs** are related to work processes or what must be done to deliver a program. Such outputs can frequently be measured, predicted into the future for staffing and funding purposes, and later verified. They are frequently representative of the budget subject level and are particularly valuable in developing efficiency measures.
>
> **Program outputs** primarily provide services which are recognized as benefits to the public. Such outputs come closer to measuring the achievement of departmental objectives than do operational outputs, and are therefore of particular interest to senior management. While quantifying these may often be more difficult, the control of output by program managers is usually possible.
>
> **Program effects** represent the intended and unintended results or consequences of producing the program outputs. These results come closest to reflecting whether or not program objectives have been achieved. They are frequently difficult to measure, and factors external to the program may also influence the result.

Using an apprenticeship training program as an example, one can visualize the operational output being the number of training courses conducted, the program output being the number of trainees completing the training, and the program effect output being the level of skill of workers in various trades. One can also note that, when moving from the operational output to the program and the program effect output levels, the degree of control that a manager has of the outcome becomes less predictable but, nevertheless, very important for the effective managing of the program.

We concluded the following from Phase I.

- A higher priority should be placed on the development of performance measurement systems by Management Board, requiring milestone dates and progress reports from departments. The development of performance measurement systems within the departments should be receiving the full support of the Deputy Ministers.

- Management Manual 200 should provide further policy direction including clarification of the role of Management Board, and responsibility of departments to develop their systems to the program output and program effect levels.

Performance Measurement — Frequently, a result indicator will flow from an operational, program, or program effect output but have to be combined with other information, in order to provide a basis for performance measurement. Too frequently the combination with the other information is not carried out by program managers, and the end result is simply an accumulation of statistics on process, rather than any form of performance information.

Observations — Phase II

During Phase II, we acquired information by questionnaire from operating departments, and visited the departments to clarify, through interview and further examination, the appropriateness of the result indicators developed and the use of the information. The following observations suggest there is still a need for clarification and direction to achieve meaningful result indicators and performance measurement in the departments of government.

- Most departments look upon the result indicator process as being a Management Board requirement, not one that is to be used to any great extent in the ongoing management of the department.

- Most departments accumulate result indicator information at the operational output level in the form of statistics, and report these statistics to Management Board, where little use is made of them.

- Some departments have accumulated information at the program and program effect output levels, but frequently it is as statistical data only, with insufficient analysis of the information as a measure of performance.

- There does not appear to be an attempt to correlate the result indicator process directed by Management Manual 200 with other directed management processes including the Management Planning and Budgeting System (MPBS) and the more recent Strategic Planning Initiative.

- The Strategic Planning Initiative material distributed to departments does not emphasize the development of performance information as a requirement for the assessment of planned achievements.

Departmental Examples

In previous Annual Reports, we commended certain departments that had developed worthwhile performance measurement systems. In most cases they were pilot projects conducted during the implementation of the result indicator process back in 1982. Through the efforts of able managers, these pilot projects and others have been further developed and are being used quite successfully.

In this article, two examples are described. One, Agriculture and Marketing, is a department not selected originally as a pilot project but one where result indicators and performance information have been developed through the initiatives of management. Second is Community Services, a department where there have been positive steps towards the development of result indicators in one division, but where there is potential for more extensive application of the concept.

Agriculture and Marketing — Management places suitable emphasis on the development of performance measurement systems. Because their responsibilities are not only advisory, but also encompass inspection and monitoring functions, they have developed indicators to provide information on both the coverage and the impact of their programs.

Most segments of the Department have developed output information at both the operational and program levels. In some cases, they have established information at the program effect level. The types of information include direct contacts with individuals and agricultural enterprises, testing and inspection functions completed, seminars conducted, analysis of trends, and compliance to standards. Weekly summary reports, reviewed by management, reflect priorities and plans.

Management of the Department recognize the difficulty of developing information at the program effect level. They are, however, accumulating information on improved compliance to standards which, if one assumes the standards are beneficial to the industry, are a measure of program effect. We noted extensive information on crop production which could possibly be developed as effectiveness information through analysis of trends.

In summary, we found a strong effort by management to correlate and use many sources of information in the ongoing management of the Department.

Community Services — This Department administers a variety of services involving payments to thousands of individuals and agencies. Its operations are extremely labor intensive, and the Department maintains detailed statistics on its activities.

Department management feels that many components of its operations do not lend themselves to result indicators which would be functional and helpful, and also cost-effective. Most divisions are using a personal contact approach by visiting field operations and sampling the workload to monitor activities. Although we recognize that this approach is required, it is our contention that a more formal result indicator process should be introduced.

In recognition of the need to improve management of Department activities, we noted that at one management group meeting, it was stated that *". . . any evaluation process should have standards against which to evaluate staff performances and this is a key point for future consideration."*

One division, Family Benefits, is developing standards that will be included with other measurements to aid in the management of this division. Both the Deputy Minister and Management Board strongly support this initiative. We concluded that the results should be beneficial, and we commend the Department for commencing the process.

Concluding Remarks

We wish to re-emphasize that performance measurement systems will only achieve maximum benefit when they move beyond the operational output level to the program and program effect levels, which are more applicable to higher levels of management. Most of the departments have not reached this stage of development and require encouragement and possibly assistance, from both Management Board and senior management within the departments.

There is a strong tendency in departments to accumulate detailed statistics mostly at the operational output level, and some at the program output and program effect levels. There is usually, however, an inadequate attempt to analyze the statistics for the purposes of performance measurement.

The following points are made to both Management Board and the departments, some of them a repeat of observations from last year's Annual Report.

- Management Board should consider revising and issuing additional policy direction through Management Manual 200, indicating clearly the responsibility of departments to develop their performance measurement systems to the levels of program output and program effect within an established time frame.

- Management Board should consider placing a higher priority on the development of performance measurement systems by establishing a full-time coordinator/advisor at the Board level and directing that a similar position be established at a senior level in each of the departments, at least on a part-time basis.

- Management Board should only request performance information, supplementary to the Management Planning and Budgeting System process, to the extent they intend to use the information as part of the budgetary process or for monitoring of departmental operations.

- Departments should make a concerted effort to document the various sources of statistics being accumulated or available for accumulation, eliminate those statistics not required, and develop a system of proper analysis of those remaining as part of an ongoing performance measurement system.

- The development of performance measurement systems within a department must receive the full support of the Deputy Minister. A qualified person or persons should be responsible for the development of the system to the program output and program effect levels of indicators.

- To identify and eliminate duplication and minimize unproductive information and data accumulation, there must be a concerted effort to correlate in timing and content, the requirements of result indicator processes, the Management Planning and Budgeting System (MPBS), and the Strategic Planning Initiative (SPI) — recognizing that in many departments, the data requirements of managers will be more extensive than that of MPBS and SPI.

Department of Tourism and Culture Grants and Inspection Services

Introduction

During the year, we performed an assignment in the Department of Tourism and Culture which included both an evaluation of the Department's accounting systems and controls, and a broader scope review of certain grant programs and inspection activities conducted under the Hotel Regulations Act and the Camping Establishments Act.

Accounting Systems

The objective of our review of the accounting system was to determine if these systems provided adequate controls over current, capital and payroll expenditures. It was our opinion, based upon the audit tests performed, that there were adequate systems of control over these three types of expenditures.

We also reviewed certain aspects of the Department's automated data processing systems, and made recommendations with respect to improved controls over user access privileges.

Grant Programs

The objective of our review in this area was to determine whether there were adequate systems of control in the administration of the two types of grant programs the Department operates. One category of grants are sustaining grants to organizations, which include Tattoo 87, Check Inns Limited, Regional Tourist Associations, the Tourism Industry Association of Nova Scotia, and the Tourism and Hospitality Institute of Nova Scotia. The second type of grants are those which meet specified criteria, and include general attractions and events for which the recipient is required to furnish financial statements to show how the grant monies were spent.

We developed the following criteria for assessing these programs.

The grant should be made pursuant to legislation, a written agreement, a written contract, or an approved application.

The objectives, eligibility criteria and reporting requirements of the grant should be clearly stated.

A system should be in place to ensure all grants are properly calculated and approved.

A system should be in place to ensure all monies were spent for the purposes intended.

Based upon the results of the audit procedures we performed, it was our opinion that the Department had an adequate system of control in the administration of these two types of grant programs, and the criteria we developed were generally met in all cases.

Inspection Services

The Hotel Regulations Act and the Camping Establishments Act specify that the Department of Tourism and Culture has legislated responsibilities related to fixed-roof accommodations. These are:

— approval of plans for construction, alteration and renovation of fixed-roof accommodations;

— licensing of all fixed-roof accommodations; and

— inspection of all fixed-roof accommodations to ensure the housekeeping and furnishings meet minimum standards.

The objectives of our review in this area were to determine whether the Department is fulfilling its legislated responsibilities under these two Acts, and to assess the adequacy of the systems in place relating to the inspection activities conducted.

We developed criteria against which to evaluate the activities of the inspection services function. These included such matters as:

— a system to ensure the Department is aware of all accommodations requiring inspection;

— a system to ensure all required inspections are conducted on an annual basis;

— documented guidelines or standards against which inspections are conducted;

— adequate documentation of inspections;

— a system to ensure consistency in the work of inspectors;

— adequate and timely follow-up procedures to ensure correction of deficiencies; and

— a system to ensure consistent and impartial dealings with respect to remedying deficiencies.

Based upon the audit procedures we performed, it was our conclusion that the Department is fulfilling its legislated mandate under the Hotel Regulations Act and the Camping Establishments Act, and that the systems relating to inspection services are adequate.

* * * * * *

OTHER AUDIT OBSERVATIONS

Introduction

Each year, my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits is shown in Appendix II to this Report, which tabulates the 42 audits performed in 20 departments during the current audit year. These audits are done to fulfill the audit mandate of Section 7 of the Auditor General Act.

Section 8 of the Act requires that I report certain specific items that come to my attention during these audits. This requirement is met by the items included in this section of my Report and in the article on Additional Appropriations, page 73.

The articles under this caption, "Other Audit Observations", may be termed "reporting by exception", discussed briefly in the Introduction section of this Report.

Accounting Function Performance

I reported in my 1987 Annual Report that in the conduct of our financial statement opinion audits, we had found the degree of readiness of audit clients to be unsatisfactory in a number of cases. For the March 31, 1987 financial statement audits, we encountered delays totalling over 900 hours at a cost to this Office of nearly $40,000 in audit time. To compensate for this excess, we had to cancel or defer other scheduled audit assignments. The principal reason for this situation seems to have been the lack of priority given to the accounting stewardship responsibility in certain of the entities we audit.

In January 1988, a national firm of chartered accountants completed a review of the performance of financial statement opinion audits by our Office. In their report, they noted that our clients were not preparing sufficient working paper support documentation to facilitate the audits, and we were not dealing firmly enough with situations when we encountered unreasonable delays in client readiness.

On the basis of the recommendations emanating from this study, we introduced revised office procedures for the performance of our financial statement opinion audits. As discussed more fully in the section on the Office of the Auditor General, page 214, these procedures have already resulted in a more efficient performance of this aspect of our work, and we expect to achieve further efficiencies in the current year. This can be accomplished only with the full cooperation of the clients' management and accounting staff, and a continuing understanding on their part of our requirements concerning readiness of the accounts and supporting material.

For the March 31, 1988 fiscal year audits, we introduced three procedures, which we intend to continue.

- Written notification will be sent to all our audit clients well in advance of the fiscal year-end, indicating commencement and completion dates, our budgeted staffing, and most importantly the specific requirements for readiness of the accounts and preparation of support material.

- Advice that in those cases where we encounter situations of unreasonable delays which will significantly add to the cost and completion dates, we shall withdraw from the audit and return at a time convenient to us.

- Where we encounter unreasonable time and cost overruns in the performance of the audit, due to deficiencies on the part of the client which should have been overcome by them, we will bill the client for the excess time incurred by our staff.

I am pleased to report that during the performance of the March 31, 1988 fiscal year-end financial statement audits, there was a vast improvement in the state of readiness. This is largely attributable to management and accounting staff being better prepared for the audits. This was because they had reacted positively to the requirements we had communicated to them in writing prior to commencement of the audits.

This year we did experience extensive delays on three audits, between the completion of our audit field work and finalization of the financial statements, but there were extenuating circumstances in each case. On only one of these audits did the delay add materially to total audit time. These circumstances have been addressed; accordingly, we do not anticipate delays in these three audits for the March 31, 1989 fiscal year.

Canada-Nova Scotia Development Fund Claims Process

Introduction

On a regular basis we audit claims for various cost-sharing programs of the Province with the Government of Canada. In the Scope section of our Annual Report the extent of these is noted, and for the current year a total of 620 claims were audited relating to 20 agreements involving 150 projects (see page 41). The objectives of these audits are to ensure compliance with the terms of the agreements, which have been jointly signed by the Government of Canada and the Province of Nova Scotia, and to audit payments made and claimed to ensure that there are proper vouchers and other supporting documents. These audits are performed both during the progress of a given project, and at its conclusion, when a final statement of claim is audited and attested to by this Office.

It is not uncommon for the Government of Canada departments involved in administering contribution programs to have a separate audit performed after completion of a project. These are done by their own auditors, usually the Audit Services Bureau of the Federal Department of Supply and Services.

In connection with the Canada-Nova Scotia Development Fund, the audit report we submit includes a certification to the effect that *"I, the undersigned Provincial Auditor, concur with the above and further certify that the statement is in accordance with the amounts and records of the Province and is supported by proper vouchers and other documents; that all applicable credits have been taken into account, and should any further credits or refunds be received pertaining thereto, I undertake to notify the Department of Energy, Mines and Resources."*

In addition, a senior official of the Provincial Government department concerned is required to certify to the claim as follows: *"We certify that the value of the work performed is in accordance with the above noted agreement and that the amount due represents the work which has not been included in any previous audited claims tendered."*

The department makes requests for advance payments during the course of a project based on their best estimates, to that date, of allowable costs under the relevant project agreement. These are not subject to audit. If the Province inadvertently overclaims on the basis of interim advances, the amount is refunded to the Federal Government when determined.

In 1984, after several years of discussion and negotiation, the Canada-Nova Scotia Oil and Gas Agreement Act and the Development Fund Agreement were formalized. The Act provided for the creation of the Canada-Nova Scotia Development Fund of $200 million. The purpose of the Fund, as stated in the Act, is to finance *"infrastructural costs directly or indirectly relating to the exploration for or development, production or transportation of oil or gas in the offshore area"* of Nova Scotia.

Audit of Auditor General of Canada — 1988 Report

The March 31, 1988 Report of the Auditor General of Canada has a chapter entitled "Department of Energy, Mines and Resources — The Management of Federal-Provincial Contribution Programs". Within this chapter is a section devoted to the $200 million Canada-Nova Scotia Development Fund. This section describes the operation of the Fund and the contribution programs associated with it, as well as describing in some detail four specific cases among the projects examined by the Auditor General of Canada.

The Report states that *"Each program we reviewed showed evidence of weak accountability to Parliament. There are inadequate plans to guide spending on individual projects, and there is very little provision for objective assessment of program results."* In addition, the Report states that *"Some of the projects . . . appear to be appropriately related to the objectives of the Fund, but many others — a total of more than $100 Million in project commitments — do not."*

Subsequent to its tabling on December 13, 1988, the Report generated a considerable amount of discussion. I was contacted by and had several discussions with the media. I also received inquiries from several Members of the House of Assembly.

With respect to one of the cases cited in this report, namely Case 4: The Vocational Training Assistance Program, my Office had extensive discussion and correspondence with the Office of the Auditor General of Canada during the period from mid-May 1988 to the end of September. I did not fully agree with certain of their conclusions regarding this specific case, and I communicated my disagreement in writing to the Auditor General of Canada. Since this disagreement is publicly known, I feel it is appropriate to present some background on the process followed in the audit of these claims, and my observations concerning certain comments in his 1988 Annual Report.

Administration of Offshore Agreement

The steps relating to project submission, project approval, and the claims process followed a consistent pattern.

- A project proposal would normally begin in a particular Provincial Department, where a submission will be prepared and submitted to the Provincial Minister of Development.
- The Provincial Minister of Development would review the submission and forward the proposal to the Federal Minister of Energy, Mines and Resources.
- A project, if deemed satisfactory, would be approved, either outright or in principle, subject to further information being provided to the Federal Minister.
- Those approved in principle would be ratified by the Federal Minister, following receipt of the additional information.
- Projects would be monitored by the Development Fund Committee, which has certain administrative responsibilities with respect to proposals and claims under the Act. The Committee is composed of two representatives of the Government of Canada and two from the Province of Nova Scotia.
- Advances would be made to the Province, based on estimates provided by the Province, and authorized by the Development Fund Committee.
- Expenditures would be incurred on the projects.

- Expenditures would be approved by officials of the particular implementing Provincial Department, and by the Provincial Department of Development.

To March 31, 1988, 52 projects were approved, totalling $187 million, of which 31 were completed, involving $73 million. There were 3 projects of $4 million in total which were not started at that date, and 18 projects totalling $110 million which were either still in progress, or the claiming process had not been completed.

We perform our audits in conjunction with this process to ensure compliance with the Act, and the project approvals emanating therefrom. Each of the 52 projects noted above was specifically approved by the Federal Minister of Energy, Mines and Resources. All projects included descriptions which, although brief in some cases, were apparently sufficient to satisfy the Federal Minister that they were related, either directly or indirectly, to the offshore. No funds by way of advance or claim were paid on any project which had not been specifically approved by the Federal Minister of Energy, Mines and Resources.

It was not our responsibility as auditors to determine whether specific projects or aspects thereof were directly related to the offshore by whatever criteria one might develop or have available. This, I submit, was a function of the Department of Energy, Mines and Resources which it could develop and administer in whatever manner it deemed appropriate and necessary.

The documentary evidence to which we audited and certified compliance was the approved project authorization, which was always a signed authorization by the Federal Minister for contributions to a given project within the overall agreement.

Vocational Training Assistance Program

As previously noted, our Office had extensive discussion and correspondence with the Office of the Auditor General of Canada relating to one aspect of the Agreement, namely two projects under the Vocational Training Assistance Program. These two projects related to courses conducted at the Institutes of Technology and at the Vocational Schools. We had performed audits and provided signed audit certificates in 1986 relating to these projects.

In 1988, in response to inquiries from the Office of the Auditor General of Canada, we carefully reviewed not once, but twice, all our work in connection with our 1986 audits. This was done to ensure that we had not overlooked any non-compliance with the project approvals.

We concluded that the amounts claimed by the Province of Nova Scotia and paid to it by the Government of Canada for costs of the Institutes of Technology and the Vocational Schools, were appropriate and in accordance with the terms of cost-sharing under the Development Fund Agreements.

Moreover, an audit was performed of the above two projects for the Department of Energy, Mines and Resources by the Audit Services Bureau of the Federal Department of Supply and Services. In their audit report dated July 12, 1988, this group stated that the amounts claimed by and paid to the Province of Nova Scotia by the Government of Canada under these two projects were appropriate and in compliance with the project approvals.

I was, therefore, somewhat perplexed by two paragraphs in the Auditor General of Canada's 1988 Annual Report, namely:

10.28 We were informed that the claims paid by EMR [Energy Mines and Resources] for these projects were based on estimated rather than actual costs. At our request, EMR obtained additional information from the province. When compared with actual costs provided by the province to EMR on June 15, 1988 (some 18 months after the claims had been certified and finalized), it is evident that there were differences between what was claimed and paid for by EMR and the actual expenses incurred in both projects.

10.29 For the Nova Scotia Nautical Institute, for example, after taking into account EIC's [Employment and Immigration Canada] share, the information provided to EMR shows "overclaims" of some $663,000 were made to the Fund in 1985-86. Indeed, for that fiscal year the amounts claimed from EIC, EMR and at least one other federal department exceeded the total operating costs of the Nautical Institute. As a result of other discrepancies between claimed and actual expenses, there were "underclaims" in other institutions within the same project. Taken together, the Province contends that the "underclaims" balance the "overclaims".

I have the following comments to make regarding what is stated above.

- Final audited claims were based on actual costs, not on estimates — even though some initial advance payments may have been based on estimates, as allowed under the Agreement.

- The additional information referred to was available and could have been provided in 1986 if it had been requested then, but it was not.

- The total amount approved for the two projects under this program on September 23, 1985 was $22,716,366, allocated $4,784,910 for courses at 3 Institutes of Technology and $17,931,456 for courses at 11 Vocational Schools. By approved agreement dated November 17, 1986, an amount of $636,515 was transferred to the Institutes of Technology project from the Vocational Schools project, but the total of $22,716,366 was not changed.

  Although there were differences between the original estimates and the final actual costs for schools within each of the two project groupings, the amounts claimed and paid did not exceed the total actual costs incurred for each of the two projects.

- The amount claimed from Federal departments did exceed the total operating costs of the Nova Scotia Nautical Institute for the fiscal year 1985-86. However, at the completion of the two-year project on March 31, 1986, the total actual costs incurred by the three Institutes of Technology exceeded the amounts claimed from Federal departments. Accordingly, the reference to a $663,000 overclaim for the Nova Scotia Nautical Institute for 1985-86 is irrelevant, and one which conveys a mistaken impression.

  Two facts concerning the Agreement are not reflected in this statement by the Auditor General of Canada. First, the project approval extended over a two-year period from April 1, 1984 to March 31, 1986, and allowable costs incurred at any time in this period were claimable. Thus it is neither fair nor proper to isolate one year's expenses for commentary.

Second, there were two other Institutes involved. The Nova Scotia Institute of Technology actual expenses exceeded claims by $566,000, and the Nova Scotia Land Survey Institute actuals exceeded claims by $120,000. In total, the actuals were greater than the claims, and I concur with the opinion of the Audit Services Bureau Report: *"To be equitable and reasonable, in the absence of any detailed funding restrictions, the established overclaims in a particular Vocational School or Institute must be netted with the underclaims of eligible expenditures on others."*

Concluding Remarks

In my view, one that is shared by others, these two paragraphs from the Auditor General of Canada's 1988 Annual Report seem to indicate that claims were made and payments received by the Province of Nova Scotia to which it was not entitled under the project approvals. This, I submit, misrepresents the situation, because based upon appropriate audit procedures we performed, and supported by the Audit Services Bureau, there were no overclaims or overpayments.

In closing, I reiterate that I did not have the audit responsibility to express an opinion on whether specific projects were directly or indirectly related to the offshore. That responsibility, under Section 3 of the Development Fund Agreement, is the sole responsibility of the Federal Minister of Energy, Mines and Resources.

Cash and Other Losses

Pursuant to Section 8 (1) (e) of the Auditor General Act, I report the following incidents where "there has been a deficiency or loss through fraud, default or mistake of any person", for the fiscal year ended March 31, 1988.

Department of Advanced Education and Job Training

Equipment valued at a total of $6,070 was stolen or destroyed in six separate instances at institutions operated by the Department during the year. There were three cases at the Nova Scotia Institute of Technology,

totalling $3,514; two cases at the Shelburne Regional Vocational School totalling $1,356, and one case at the Dartmouth Adult Vocational Training Centre for $1,200. Although all cases were investigated by police, there have been no recoveries or arrests made.

Department of Transportation and Communications

The value of equipment stolen or lost during the fiscal year is estimated at $30,971. These thefts or losses occurred at locations throughout the Province and no recoveries were made.

An employee was paid $6,397 for sick leave on the basis of falsified medical reports. Full recovery was made and the employee resigned.

Other

Sixteen other losses were reported which totalled $5,688. These represented principally equipment losses, and some minor petty cash amounts stolen. Recoveries of $2,448 were made.

Computer Related Audits

Introduction

In previous years, this Office has reported the results of our audits of computerized information system controls. These assignments are carried out in departments and agencies where computerized information systems are used for accounting, financial, and other management-related activities. They include the review and evaluation of general environment and processing controls.

The review of general environment controls examines procedures for the management and use of computer resources covering areas such as:

— organization of the information systems activity;

— controls over development and maintenance of systems;

— controls over the operation of systems, processing of data, and security of computer resources; and

— documentation of systems and programs.

The review of processing controls covers the specific procedures, whether computerized or manual, for the individual systems. These controls are intended to ensure the completeness and accuracy of the data processed, as well as the adequacy of authorizations and audit trails.

Our evaluations of general environment and processing controls are based primarily on the control objectives and minimum control standards as outlined by the Canadian Institute of Chartered Accountants in its publication, *Computer Control Guidelines*.

Results of Audits

Most of our regular assignments include the review of selected components or functions of computerized information systems. Where practical, for audit planning and reporting purposes we have integrated the review of computerized information system controls with our coverage of other areas.

The results of our audit work on computerized information system controls are presented in separate articles throughout this Report, including:

— Department of Attorney General: Provincial Court Information System (page 117)

— Department of Finance: Provincial Tax Commission-Computer Environment Review (page 134)

— Department of Finance: Trusts and Debt Management (page 186)

— Provincial Data Centre: Password Access Security (page 190)

Follow-up Comments from 1987 Report

Government-wide assignment — In 1987, we conducted a government-wide assignment to assess information system controls in the areas of password access security, and disaster recovery and contingency planning. The findings and observations derived from our reviews of the individual information processing sites were reported to the department or agency management concerned. In addition, a summary report was submitted to Management Board.

Overall, we concluded that, considering the nature and size of the computer operations at the various sites, the information system controls in the two areas were reasonable. However, for certain sites we identified specific instances where minimum control standards were not being met and made recommendations for improvement.

During the past year, we completed a follow-up review in which management for each site covered in the 1987 assignment was requested to provide current information on each recommendation reported to them. Based on the information provided, the following is a summary of the action taken or planned.

Individual departments or agencies — In total, we made 84 recommendations to management of the individual departments or agencies. Certain of these recommendations were common to a number of sites.

Improvements in controls have been implemented or are planned for 41 of the recommendations. For 13 recommendations management has indicated that, based on their assessment, no changes are practical (cost-effective) at this time.

No action has been taken or planned yet for the other 30 recommendations. Generally, we found that in these instances management was committed to addressing our recommendations, but action had been delayed due to unavailability of resources or pending organizational or resource changes.

Departmental and agency management are to be commended for improvements made to date. As the use and dependence on information systems increases, continuing efforts will be required to address the outstanding recommendations, and to ensure an adequate and cost-effective level of control is maintained.

Management Board — Our summary report to Management Board included only one recommendation. It was that the Province should consider the appropriateness of developing information system control guidelines on a government-wide basis. We outlined what in our view are the general control objectives or standards that should be met in the two areas covered by this assignment.

Management Board through its EDP Advisory Committee is in the process of updating the Government Systems Overview (GSO), which is the Government of Nova Scotia Management Manual 302. The purpose of the GSO, as stated in its first release, is *". . . to document the overall strategy for EDP development within the Government of Nova Scotia and to outline the key areas of responsibility and main planning and approval process."*

We reviewed a draft of the revised security section in the GSO update and communicated our comments to the Management Board staff responsible for finalizing the update which is scheduled for release in early 1989.

The draft contains overall guidelines for control objectives or standards, as well as department or agency management responsibilities, and as such is a significant improvement over the existing GSO security section. However, the draft does not include as much detail on control objectives or standards as we had suggested. Notwithstanding, it does represent a positive initiative in the establishment of government-wide information system control guidelines.

Responsibility for the implementation and ongoing maintenance of cost-effective procedures to meet the GSO requirements rests with individual department or agency management. It is our understanding that there will be no specific centralized efforts to monitor compliance with the GSO's security requirements. In our view there should be some form of compliance monitoring.

In the next few years, as our Office continues to review security related controls at departments and agencies, we will assess whether further standards and procedures are necessary to maintain a desired level of security control.

Human Resources Management System (HRMS) — This new system, which will replace the existing personnel and payroll systems, is being implemented through Management Board. A project team,

including representatives of the major user departments, has been established. A phased implementation of the HRMS is currently in progress.

Our involvement in the last year has been limited to gathering basic information necessary to carry out audit procedures for the Public Service Superannuation and Nova Scotia Teachers' Pension Funds, both of which use HRMS when making payments to pensioners. This Office will conduct a comprehensive review of the HRMS controls after the major payroll and personnel components are implemented and fully operational.

Registry of Motor Vehicles — In early 1988 the Registry of Motor Vehicles implemented a new on-line licensing and registration system, developed by a project team consisting of Registry, Government Services, and external consulting staff. The Registry receives and records approximately $40 million of license and registration fees each year.

The new system had a significant impact on all existing procedures and controls. Problems encountered during the implementation of the new system resulted in delays in processing transactions, depositing funds received, and performing certain account balancing and reconciliation procedures.

There were also difficulties establishing a proper March 31, 1988 year-end cut-off of cash and revenues, which required additional audit efforts both by Department of Finance's external auditors and internal audit staff.

After the year-end cut-off problem was resolved, an extensive study was conducted of the new system and its implementation by a joint team consisting of the two audit groups.

The report from that study was not finalized and available for our review in time for further comment in this Annual Report. This Office will be conducting a comprehensive evaluation of the licensing and registration system's controls in 1989, including a consideration of the results of the study.

Concluding Remarks

As noted in previous reports, the level of control relating to information systems is improving throughout the provincial operations. Progress has been made in addressing the control deficiencies noted by this Office in prior years. Management and staff within departments and agencies are more aware of, and are committed to, the need for cost-effective control of information systems.

With increasing use and dependence on information systems, management's challenge will be not only to maintain, but also to enhance the level of information system controls.

Effective development, implementation and monitoring of basic, but comprehensive, information system control policies and guidelines on a government-wide basis is essential to sustain an appropriate level and consistency of controls.

Department of Finance
Trusts and Debt Management

Introduction

We completed evaluations of the investment management and debenture administration computerized information systems of the Department of Finance's Trusts and Debt Management Division. Both systems were developed in-house and implemented on the Department's minicomputer over a number of years.

This was our first review of the systems since they had been computerized. Our previous coverage had been limited to reviewing and testing certain of the investment management procedures during our financial statement audits for the Nova Scotia Teachers' Pension and Public Service Superannuation Funds.

Investment management system — This system supports the investment management function for a number of Province of Nova Scotia funds. It was developed to monitor and control the inventory of investments, including bonds, short-term investments, equities, coupons, and mortgages, which in total exceeds $2.5 billion.

Recently, the use of outside investment managers and the increase in transaction volumes have resulted in additional processing requirements being put on the system. Accordingly, Department management plans to review its investment management system requirements during 1989 to identify necessary information and processing improvements. This review will require resource commitments and effective participation both by the Trusts and Debt Management and Management Information Systems (MIS) Divisions.

Debenture administration system — The Debt Services section of the Division is responsible for administering and servicing the Province's debt. This includes in excess of $5.2 billion of outstanding debentures and $558 million in debt charges for the year ended March 31, 1987.

The development of the debenture administration system began in 1982. The first phase of the system (inventory and accounting functions) has been operational since July 1985.

A post-implementation evaluation of the debenture administration system was completed by the Department. Enhancements suggested in the evaluation are tentatively planned for 1989-90. Development of the remaining phases of the system forms part of the Department's long-range systems plan.

Scope of Assignment

Our evaluation of the systems, while concentrating on the processing control procedures, also considered the general environment controls which had previously been reported on by this Office.

We reviewed the systems documentation available and completed tests to verify the existence and our understanding of control procedures.

In April 1988, the Department began a reorganization of the Division's activities and reporting relationships, which is still in process. Our audit was conducted before the reorganization began and, therefore, our comments are applicable to the control procedures in effect at the time of the review. The timing of our audit, however, does not negate the significance of our observations and conclusions.

Summary of Results

Overall, we concluded that the processing control procedures relating to Trusts and Debt Management's computerized information systems were adequate. However, improvements should be considered in certain general environment control areas. Recommendations were made to management where, in our view, improvements are required. The more significant of these follow.

Password access security — Password access security controls provide the primary techniques to restrict access to information systems. These controls ensure that access to information systems is authorized and in accordance with established policies and procedures.

Based on our review we concluded that existing password access security procedures did not adequately protect programs and files residing on the investment management and debenture administration systems. We recommended that procedures be modified to ensure that:

— user ID's and passwords are not shared or disclosed;

— passwords are changed on a regular and more frequent basis;

— the access capabilities of the programmer/analysts to production programs and data files are adequately restricted to ensure appropriate segregation of duties;

— the MIS Division is notified of terminated employees and/or changes in responsibilities; and

— all user access privileges are reviewed at least annually and re-approved.

After this assignment was completed, the Department implemented new password access security procedures which addressed the first two of these recommendations.

Maintenance of information systems — It is a standard control principle to segregate production systems (programs and data files) from program development, maintenance and testing activities. It was indicated that, because of resource constraints, it is not practical to maintain separate production and development program libraries for the

investment management system. As a result, the coding and testing of program changes for the investment management system was sometimes made directly to the production versions of the programs.

To ensure that only authorized, tested and documented changes to information systems are accepted into production, we recommended to management that changes to programs always be made to a separate copy of the programs involved. Also, revisions to programs should be adequately tested and approved by user management prior to being accepted into production.

Disaster recovery and contingency planning — Disaster recovery planning is the process of identifying procedures and guidelines to be used to recover from a loss of computer equipment, software and/or data. Contingency planning is the process that focuses on how an organization will maintain operations while the disaster recovery plan is in effect. Both areas of planning are essential to the continued operation of significant information systems.

The Department has developed and documented disaster recovery and contingency plans. In these plans the debenture administration system is identified as one of two information systems critical to ongoing operations of the Department. Management indicated that the system could withstand a very limited downtime before operations would be seriously affected.

The investment management system is not currently identified as critical to the ongoing operations of the Department, and is not covered by the Department's existing disaster recovery and contingency plans. In the event of a prolonged interruption in data processing services, the investment management system reports would not be available to users. Information used to complete certain procedures would have to be generated manually.

Considering the nature and size of the computer operations at Finance, its disaster recovery and contingency plans for the critical data processing functions are reasonable. However, we note that the Department's plans were developed and tested by the MIS Division with limited participation by the user divisions.

Accordingly, we recommended that contingency procedures (manual or otherwise) be developed for the investment management system users, and that these be included in the Department's formal disaster recovery and contingency plans. As noted earlier, the Department plans to review its investment management system requirements, which will include a reassessment of the need for formal disaster recovery and contingency procedures in that area.

Provincial Data Centre Password Access Security

Introduction

In information processing environments, password access security provides the primary technique to control or restrict access to information systems. The purpose is to ensure that all access to information systems is authorized and in accordance with established policies and procedures. The effectiveness of the controls depends both on their technical or design characteristics, and the manner in which they are managed.

During the past year, we completed a preliminary review of the Access Control Facility (ACF2) security package used by the Department of Government Services, Systems and Computer Services Division (SCSD) at the Provincial Data Centre.

The objective of this assignment was to evaluate the installation and ongoing management of ACF2. Responsibility for these functions rests with SCSD.

ACF2 provides the primary password access security over the information systems and resources at the Data Centre. The package provides access control over both on-line and batch processing. There are more than 1300 authorized users with varying levels of access capabilities to the information and resources at the Data Centre.

Effective management and control of ACF2 is critical to maintaining an adequate level of access security and segregation of duties for the information systems processed at the Data Centre.

Scope of Assignment

The field work for the assignment was completed over a number of months and included:

— reviewing administrative policies and procedures relating to the access security management function; and

— completing specific audit procedures outlined in the *ACF2 Auditor's Guide* to confirm the installation and operating environment established for ACF2.

ACF2 interfaces with other packages and customized programs used to control detailed user access to specific information systems. These interfaces and programs were not reviewed as part of this audit, but will be considered during assignments relating to specific information systems.

Because of the importance of password access security (including ACF2) and its technical complexities, we will continue to perform extensive review and testing of selected areas relating to it.

Summary of Results

Our overall conclusion is that the installation and administration of ACF2 results in a reasonable level of access security. However, we made recommendations for improvement to administrative policies and procedures, which in our view, should enhance the level of control in this area.

The following summarizes our principal observations and recommendations relating to ACF2 specifically and password access security generally.

- ACF2 is one of a number of security related software packages or programs in use at the Data Centre. While ACF2 is considered the primary or first level of password access security, the management of these other packages or programs is equally important from a control perspective.

- The responsibility for planning, coordinating and monitoring the ongoing access security management activities, including ACF2, should be assigned to an independent security administration function. The security administrator should be a member of senior management.

- The use and control of special ID's by SCSD staff for emergency programming activities should be reviewed. Policies and procedures should be enhanced to control when they are used. Since these ID's can be used to initiate changes directly to production files, they represent a control risk which the security administration and user management should monitor closely.

- Users should ultimately be responsible for the confidentiality of their ID's and passwords. Instances of users sharing ID's and passwords were noted during other audit assignments completed by this Office. This is an indication that policies and guidelines must be clearly defined and communicated to all users.

- Policies and guidelines relating to access security need to be reviewed and expanded. Security policies need to be clearly and concisely communicated to all SCSD and user management and staff concerned. We have recommended that existing policies and guidelines be enhanced and effectively communicated in at least the following areas:

  — use and control of ID's and passwords;

  — approvals for establishing or reviewing users' access privileges and rules;

  — review and approval of ACF2 logging verification notices;

  — identification and definition of responsibilities of data owners;

  — allocation of responsibilities between SCSD and user departments; and

  — confidentiality of information.

- SCSD should review the adequacy of retention practices for the primary ACF2 control forms and reports. Documents authorizing access privileges, rules and logged activities are not retained on file for a sufficient period of time to support the information established on ACF2.

Department of Government Services management are in general agreement with our recommendations and have indicated they will act upon them as resources and time permit.

Reservations of Opinion

Introduction

The provisions of Section 7 (b) and (d) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

— all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To fulfill this responsibility, it is necessary to review and evaluate the financial and accounting controls in the departments and agencies of government. The audits performed this year are tabulated in Appendix II to this Report. If certain essential controls are found to be inadequate, these deficiencies must be considered in rendering an opinion.

In addition, I have an audit responsibility for the annual financial statements of various crown corporations, boards, commissions and funds. These total 28 audits, listed in Appendix III of this Report.

Financial Statement Audits

In my Annual Report, the details of any audit qualifications concerning financial statement audits, or situations in which it was not possible to render an audit opinion, referred to as a denial of opinion, must be described in full.

In each of the 1986 and 1987 fiscal years, I was unable to express an unqualified audit opinion on the year-end financial statements of two entities: the Public Trustee; and the Victoria General Hospital. In both cases sufficient improvement in the administration of the accounting function and matters relating to the March 31, 1988 financial statements enabled me to provide an unqualified audit opinion for each. A brief explanation concerning the improved conditions this year is provided in the following paragraphs.

Public Trustee — I had reported last year that there were significant weaknesses in maintaining essential accounting records for this operation. This was attributable to the lack of appropriate accounting expertise of the staff, as well as serious shortcomings in the accounting systems. In May 1987 a qualified person was hired to direct the accounting function. Since then, substantial improvements have been made in both the accounting systems for the Public Trustee, and in the performance of the accounting function. Accordingly, I did not have to deny an opinion on the financial statements of this entity at March 31, 1988.

Victoria General Hospital — In my 1987 Report, I stated that the administration of the accounting function at the Victoria General Hospital had long been a matter of concern to our Office. The operation of the accounting and control function had not received the degree of executive priority that it should have. For the March 31, 1987 fiscal year-end there was a significant difference, which could not be reconciled, between the inventory in the accounting records and the total of the physical counts. In addition, there was an unacceptably high number of errors in the accounting for and pricing of inventories. Management of the hospital in their management representation letter associated with the audit stated that *"As members of management, we do not believe that the hospital has a system of internal control adequate to permit the preparation of accurate financial statements with respect to timeliness and classification of information. Significant intervention is required to substitute for inadequate accounting controls and to ensure conformity with generally accepted hospital accounting principles."*

Since then, the Hospital conducted an extensive review of its inventory systems and has initiated plans to upgrade other major accounting systems. In addition, management has provided us with an unqualified management representation letter for the year ended March 31, 1988. The differences between accounting records and physical counts, as well as the extent of accounting and clerical errors have been reduced to acceptable amounts. Two professionally qualified accountants joined the accounting department in the period August 1987 to August 1988.

Accordingly, I was able to express an unqualified audit opinion on the financial statements of the Hospital for their March 31, 1988 fiscal year. Moreover, a full set of financial statements, together with the unqualified audit opinion will appear in the Public Accounts of the Province for the first time this year.

Departmental Audits

This year, in the performance of our audits of departments and agencies, we encountered situations where the systems and procedures were deficient to the extent that reporting is required under Section 7 (b) and (d). In addition, there is an article on page 115 concerning our audit of the Provincial Judges and Prothonotary Offices of the Department of Attorney General which describes several instances of internal control weaknesses.

Department of Finance — During the past year we conducted an audit in this Department to assess the adequacy of the controls over several types of transactions, including Corporation Capital Tax and Canada Savings Bonds.

The Corporation Capital Tax is a new source of revenue introduced in 1986. Our review of the Act and Regulations governing this revenue, and the systems and controls surrounding it, indicated some improvements could be made in the areas of overdue taxes, monitoring of tax accounts, and processing of arrears.

- Interest was not being charged on overdue accounts.
- The Department did not have a formal system for monitoring accounts due.

- There were extensive delays in the Department's review of annual returns to determine if taxes had been calculated properly, and in compliance with the terms of the Act.

- There were control weaknesses with respect to the segregation of duties for people receiving tax remittances, recording them and depositing the receipts.

Concerning the administration of Canada Savings Bonds, our audit indicated that there was an inadequate segregation of duties for the functions of receiving payments and releasing bonds, and a deficiency with respect to reconciling transactions affecting them.

We have been advised by the Department that our recommendations relating to these shortcomings were accepted, and that corrective action will be taken to remedy all that we noted.

Department of Government Services — We performed an audit in the Department of Government Services. The objectives were to determine the adequacy of general accounting systems and controls in assuring expenditures, revenues and recoveries were accurate, complete, and accounted for in accordance with relevant legislation and policies; and to assess the adequacy of systems and controls in a number of other areas, including capital assets.

The principal conclusions derived from this audit follow.

- Billings and recoveries to other Departments, although accurate and complete, were not timely and excessive delays were noted in several areas.

- There were serious deficiencies in internal controls over accounts receivable and cash receipts.

- There were weaknesses in the systems and controls related to the Province's capital assets.

More specific findings showed the time span for billing of services rendered by the Department in many cases to be on average two to three months, and in some cases almost six months after the service was rendered. The Department recognized these delays as being unreasonable, but in their view were being experienced because staffing shortages did not permit more timely billing activity.

In accounts receivable and cash receipt systems, our review indicated that certain basic control standards were not in place for handling and recording of mail receipts, endorsement of cheques, security over receipts, and recording and prompt deposit of receipts.

There were deficiencies in the administration of the capital asset function. Some departments were not submitting asset listings, as required, to Government Services. As a result, insurance coverage data and basic recordkeeping by Government Services were deficient. Certain basic historical and replacement cost data were not being maintained. No standard asset identification tagging system was in use. Periodic inspection of assets in the various departments by Government Services was not as extensive as it should have been. The capital asset recordkeeping function and the insurance management activities of the Department were not coordinated.

Our report to the Department regarding this audit was issued in February 1988. We performed a follow-up review in November 1988 to determine the extent to which our recommendations had been acted upon. We found that:

— closer attention is being given to billing and recovery, so that most of the billings and recoveries in the areas we had audited were up-to-date;

— effective February 1, 1989 a new mail-monitoring system is being introduced;

— additional procedures were adopted for the handling of cash and the segregation of duties with respect to cash transactions;

— a new computer inventory system is being introduced for capital assets which it is hoped will be operational by the end of 1989;

— the number of staff responsible for administering the capital asset function has increased, and a new Director of Insurance has been engaged; and

— there have been other staffing changes, including the hiring of a new Executive Director of Finance and Administration.

Department of Transportation and Communications — On several occasions, our audits have indicated a serious weakness in the non-Civil Service payroll system, particularly as it relates to non-certified employees. This weakness is due to the high concentration of duties exercised by the area foremen who perform incompatible duties such as:

— the hiring of these non-certified employees;

— the preparation of time sheets which generate payroll cheques; and

— the receiving and distribution of payroll cheques.

In an audit completed in early 1988, we determined that such a condition still exists and conveyed our concerns to the Department. Some factors compensate for the weakness, to a limited extent, such as the development of standards for the number of people required on a job, which would normally bring to management's attention any significantly inflated payrolls. We have recommended that further controls should be undertaken, such as:

— the performance of more frequent surprise cheque handout distributions; and

— the requirement of additional approvals on time sheets.

The Department has indicated that as the revised Maintenance Management Program is phased in over the next few years, the concentration of duties at the area foremen level will be reviewed with the objective to improve control. Additional improvements are likely to be achieved by the implementation of the Program.

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STATUS PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS

Introduction

This Annual Report continues the practice commenced in 1986 of tabulating the status of all previously reported significant recommendations and observations. Last year this list included items from six previous Reports, 1981 to 1986 inclusive.

Added to the tabulation this year are matters arising from articles included in our 1987 Annual Report, where the comment still applies, the recommendation has not been implemented, or the status is to be determined at the time of a future audit. Also included are items mentioned in last year's status article which were resolved during the current year. Where pertinent, reference is made to articles in this year's Report.

There are 56 topics noted and the following summarizes their current status.

Comment still applies, or recommendation not implemented	23
Recommendation partly or substantially implemented	16
Recommendation fully implemented, or condition no longer applies	10
Status to be ascertained at a subsequent audit	7
	56

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Estimates			
• Need to realistically anticipate all major expenditure requirements.	Comment still applies in certain cases.	1987 1986 1985 1984	59 50-51 25-26 74
• Use of Result Indicators encouraged, but development and use inconsistently applied in departments.	Comment still applies in certain cases, see article page 162.	1988 1987 1985 1984	164-168 111-113 26 30
Public Accounts			
• Use of "Forecast" data in the Statement of Current Revenue and Expenditure, considered irrelevant and unnecessary.	Comment still applies.	1986 1985 1984	28 28 32
• Certain advances under the Universities Assistance Act, which do not represent realizable recoveries from outside parties, are included on the Statement of Financial Position, contrary to prudent accounting practice.	Comment still applies.	1987 1986 1985	40 28 29

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Auditor General Act			
• Recommended amendments to the Act to provide an appropriate degree of independence, particularly regarding appointment of the Auditor General and administration of the Office.	Not yet implemented.	1987 1986 1985 1984	30 29 31 36-37
• Recommended extensions of the scope of the audit mandate for the Auditor General, especially for the audit of government grants and other assistance.	Implemented by revised legislation in 1988.	1987 1986 1985 1984	31 29-30 32-33 37-39
• Other recommended amendments to the Act for administrative clarification and improvement.	Implemented by revised legislation in 1988.	1987 1986 1985	30-31 29 33-34
Public Accounts Committee			
• Recommendation for various improvements in operation and structure of the Committee, relating principally to:	Partly implemented.		

— formal enunciation of Committee's role and responsibilities;	Not yet implemented.	1988	52-53
— use of agendas and background material;	Not yet implemented.	1987	42
— provision for follow-up to Committee recommendations.	Not yet implemented.	1986	30
		1985	35

Financial Topics

• The need to re-examine existing Government programs to evaluate their affordability and also their efficiency and effectiveness.	The Strategic Planning Initiative began in 1986 and is now in a second phase of evaluating all Government programs. Government initiated a three-year program of deficit reduction in 1987.	1987 1986 1985 1984	57 49-50 43 81
• Additional appropriations are too frequently requested by departments, and approved by Executive Council after the end of the fiscal year, often six to eight months later.	Comment still applies, but significant improvement in 1987 and 1988 (see pages 74-76).	1988 1987 1986 1985 1984	75 59-60 53 44, 46 74

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Crown Agencies and Corporation			
• Recommendation that legislation is required for crown agencies and corporations to enhance their accountability by providing for consistent reporting and disclosure requirements, a definition of status, and related matters.	Not yet implemented.	1987 1986 1985 1982	67 56-57 49-50 62
Municipal Finance Corporation			
• Recommendations regarding:		1987	70-72
— need for the Reserve Fund;	Maintaining at 1% of outstanding debentures.		
— charging of administrative costs not paid by the Province;	Not yet resolved.		
— computerization of clerical functions;	Implemented in 1988		
— representation on Board of Directors from Departments of Health and Education.	Liaison established in lieu of representation.		

Sherbrooke Restoration Commission

• Recommendations regarding:		1987	73-74
— need for an annual audit;	Implemented in 1988.		
— registration of scientific and historic objects;	Remedied in 1988.		
— deficiencies in controls over cash receipts.	Not yet remedied, but new systems being introduced.		

Departmental and Other Audit Observations

Annual Reports of Departments

• Deficiencies in reporting, content and timeliness by several departments, not in compliance with Management Board requirements.	Situation still prevalent. Review of reports conducted in 1988, see page 126.	1988 1983	126-131 36

Department of Attorney General

• Sheriffs' offices — deficiencies in cash receipt and disbursement practices, relating to cheque signing and cash deposits.	To be evaluated at a future audit.	1986	71-73

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Computer Related Audits			
• Insufficient attention to security and control matters at many installations throughout government.	Although marked improvement in awareness and controls, this is still a continuing concern.	1987 1986 1984 1983	138-139 114-118 53 34-35
• Department of Transportation — inadequate segregation of duties in its computer installation.	Management contends not cost-effective to remedy remaining control deficiencies	1985	95
Department of Education			
• Lack of procedures by the Department to ensure there is adequate fire insurance on school buildings and contents.	Effective January 1, 1989, insurance for school buildings and contents is under a self-insurance plan administered by Nova Scotia School Boards Association. The Department of Education will monitor administration of the plan.	1983	38-39

Department of the Environment			
• Formal policies and guidelines lacking for Environmental Improvement Project grants.	No formalization of policies and guidelines yet, but satisfactory control procedures initiated.	1984	67
Department of Finance — Provincial Tax Commission			
• Recommendations regarding: — collection activities; — assessment appeals; — computer system controls.	Significant progress made during the year, see article page 132.	1987	85-90
Department of Health and Fitness — Medical Services Insurance			
• Recommendations regarding: — computer systems controls; — deficiencies in the claims audit function; — the need for an independent internal audit function.	Significant progress made during the year, see article page 146.	1987	94-97

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Internal Audit			
• Outstanding recommendations arising from a government-wide study including:			
— need for expanded audit scope into economy and efficiency areas;	In most internal audit mandates, but not activated.		
— need for planning and risk analysis;	To be evaluated at a future audit.	1987	99-101
— need for central internal audit resource for smaller departments;	To be evaluated at a future audit.	1986	94-96
— need for staffing, training and performance enhancements.	Only minimal progress in these areas.		
Department of Finance			
• Statement of Travelling Expenses Form, needs revision to provide more detail and facilitate approval and audit.	New form drafted, not yet introduced.	1986	101-102

Department of Labour — Fire Marshall			
• Recommendations regarding: — the scheduling of inspections; — follow-up of deficiencies revealed in the inspection process; — monitoring of inspection performance delegated to others; — related administrative and training procedures.	To be evaluated at a future audit.	1987	102-108
Portland Estates Limited			
• Shortcomings noted in the administration of the loan to Portland Estates.	Bank appointed a receiver in May 1988, challenged by the Company, court case scheduled for June 1989.	1985	86-89
Provincial Retirement Plans			
• Teachers' Pension Fund — large and growing unfunded liability; — deficiency in current contributions; — need for actuarial reviews more frequently than every five years.	Comment still applies. Awaiting results of 1988 actuarial review. One conducted in 1988, a four-year interval. Report not available at date of preparation of our Annual Report.	1987 1986 1985 1983	141-142 120-121 93-94 44

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Page
Government Purchasing Agency			
• The Government Purchases Act should be amended to alter the Agency's reporting requirement to the Auditor General.	Under consideration by Government.	1985	63-64
Result Indicators			
• Recommendations were made regarding: — the need for a higher priority being placed on the use of result indicators; — the need for additional policy direction in this area.	Refer to article on page 162, regarding Phase II of our audit, done in 1988. Condition essentially unchanged.	1988 1987	167-168 108-113

Department of Transportation and Communications			
• Regarding equipment parts inventories, extensive recommendations were made concerning:		1987	150-154
— the need to develop appropriate management policies and guidelines in certain areas of inventory management;	Only preliminary work on guidelines has started.		
— a requirement for improved management practices for ordering parts;	These have been implemented.		
— the accountability assignments for inventory management responsibilities;	Some changes initiated, but others not yet dealt with.		
— information needs of division offices;	A new maintenance management system is being introduced.		
— the high levels of certain non-parts inventories.	Currently lack data to address this problem completely, but above noted system should help resolve it.		
Venture Corporations Board			
• Shortcomings regarding information requirements and accounting for investments under the Venture Corporations Act.	Comment still applies.	1987 1986 1985	155-156 126-129 97
• Lack of compliance by Venture Corporations with information filing requirements of the Act.	Staffing enhancements in 1988, to address problems.	1987 1986 1985	155 128 96

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1988 Annual Report	Reference Year	Reference Page
Victoria General Hospital			
• Recommended enhancement of internal audit activity to operational areas.	Comment still applies, even though function reactivated in mid-1987.	1981	38-39
• Significant weaknesses in financial management relating to:			
— hospital's financial information system;	Improved system targeted for implementation April 1, 1990.	1981	42
— lack of a *management services* function which goes beyond data processing responsibilities;	Function introduced in 1982, to be evaluated at a subsequent audit.	1981	40
— administration of the budget process.	Improvements in process, to be evaluated at a subsequent audit.	1981	41
Vocational Schools			
• Recommendations arising from an in-depth special audit review relating to:	Largely implemented, see article page 111.	1986	103-107
— management control systems;			
— curriculum development and evaluation;			
— human resources management;			
— facilities and materiel management.			

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OFFICE OF THE AUDITOR GENERAL

Office of the Auditor General

Introductory Comments

Audit Methodology Studies

In an effort to improve both the efficiency and the effectiveness of our Office, we engaged a firm of Chartered Accountants to review the processes and practices we employ in the conduct of our financial statement audits. A report on this study was received in January 1988, and identified opportunities for improving both the quality of work and the amount of time spent on these audits. A brief reference was made to this study in our 1987 Annual Report.

The financial statement audit segment represents about one-third of the audit hours required by the Office. A tabulation of these audits may be found in Appendix III of this Report.

For the March 31, 1988 fiscal year, we were able to realize an appreciable degree of time savings of approximately 20%. This was accomplished by implementing recommendations from the study, and involved principally three matters. We advised management and senior accounting officials of all our financial statement audit entities of the need for a greater degree of readiness and preparation by them of support material. This was done, and we are grateful to these entities for facilitating our audit efforts.

Secondly, we adopted in certain instances, particularly for the larger audits, a revised audit approach with respect to audit testing, which achieved considerable savings for us. Finally, as a result of the study, the general approach and the organization for these audits by our staff provided an awareness of the need for audit performance, particularly to achievable time standards, which had not always been the case in the past. As a result, our financial statement audits are more cost-effective, and further improvements are foreseen.

In mid-1988, we embarked upon a study to determine whether it might be possible to effect improvements in both the efficiency and effectiveness with which we conduct our audits in government departments (refer to list of these audits in Appendix II). The total time devoted to these audits is about one-third of the audit hours we employ. As part of this study, two of our staff members visited the Office of the Provincial Auditor of Ontario, reviewing their approaches and methodology.

Emanating from this visit, which was extremely worthwhile in terms of identifying possible areas for improvement, are suggestions for revisions to our departmental audits which we feel will achieve improvements in both quality of coverage and utilization of resources. We hope to initiate certain of these changes within the first six months of calendar 1989. This will involve a reorganization of office assignments and responsibilities. By the end of 1989, it is our expectation to have the revised audit approach and associated reorganization fully implemented.

There were two compelling reasons for the decision to review both our financial statement and departmental audit efforts. One was that over the past several years, due to a variety of reasons enunciated in prior Annual Reports, we have not been able to complete all of our planned audit activities. We have been forced to cancel and defer too many audits we would have preferred to have completed.

Secondly, we have found that our broad scope audit activities in departments and crown corporations have required far more audit time than we had originally anticipated, due to the size and complexity of some of the audit assignments in these entities.

One alternative would have been to request increases in audit staff. Although the complement of this Office has, over 23 years, risen from 28 in 1965 to only 33 in 1988, we believed that a vigorous analysis of the efficiency with which we conduct our audits was a better first step. In addition, with the impact of computers on audit techniques in recent years, their utilization had to be more fully exploited.

Expanded Audit Mandate

The success we have had with these two studies of financial statement and department audits, and the potential for further improvements when the office reorganization is completed, come at a most opportune time. In the spring 1988 session of the Legislature, amendments to the Auditor General Act were enacted to permit the audit of transfer payments, and the mandate to perform audits to determine whether expenditures were made with due regard for economy and efficiency.

This expanded audit mandate will involve a significant increase in audit responsibilities, at a level requiring additional experienced audit staff. In September 1988, I submitted to Management Board a proposal indicating resource requirements, and a general plan for implementing

transfer payment auditing over the next few years. Management Board was quite receptive to my proposal, and has agreed to provide the additional resources I have requested for this audit activity, effective April 1, 1989. I would like to express my gratitude to the Chairman and Members of Management Board for their serious consideration and acceptance of this proposal.

As part of the reorganization of the Office and its audit activities, it is planned to alter the scheduled time frame within which certain types of audits are performed, and reported on in our Annual Report.

Financial statement year-end audits are done in the months of May to September, and where pre-year-end audit work is appropriate, it is performed from January to March. No change is planned in this scheduling format. We will, however, apply a larger segment of our staff resources to the financial statement year-end audit time period, in order to complete this segment of our total audit activity more quickly.

Department compliance audits are performed throughout the year, principally in the period from October to May. This scheduling will continue. However, normally only those audits completed by October 31 will be reported in the Annual Report tabled in the House the following year.

Special audit assignments in departments, crown agencies and corporations, as well as anticipated audit work in the transfer payment area, will be concentrated in the period from September to May, inclusive. Again, only those completed by October 31 will normally be reported in the Annual Report for tabling in the upcoming sitting of the House.

To date it has not been uncommon for my Office to complete its final review with an auditee, including the issue of our audit report to them, in the weeks and months immediately preceding the finalization of my Annual Report. This has not been deliberate, but as a result of unanticipated delays in completing the audit, and more especially the review of it with the auditee.

It is our belief that adoption of the October 31 deadline, along with a more deliberate concentration of resources to specific segments of our work in given time periods, will facilitate a more satisfactory and efficient performance of the total audit function. The only drawback is that certain matters will be a year later in their inclusion in our Annual

Report than they might otherwise have been. In cases where there are matters of importance, that in my view deserve more immediate advice to the Legislature, I shall include a reporting of them in the current Annual Report, rather than waiting for the next year.

Staff Complement

In response to our budget request for the 1988-89 fiscal year, Management Board agreed to an increase in staff of 1 qualified professional accountant. As a result of this approval, staff complement went from 32 to 33 persons, as detailed in the following schedule. During calendar year 1988, three staff professionals moved to senior positions in government: one went to the Nova Scotia Research Foundation as Comptroller; another to the Nova Scotia Securities Commission as Deputy Registrar Corporate Finance; and one to the Department of Government Services as Executive Director of Finance and Administration. Although the loss of competent experienced professional staff adds to the pressures on those remaining until replacements are engaged, I do have to express a high degree of satisfaction that these opportunities were made available to our staff.

I contend that in an Office such as ours, a degree of experience in government accounting, administration and financial matters can be obtained that is difficult to achieve within most other departments of government. Accordingly, I encourage this type of transfer, and trust that continuing use will be made of it.

The approved staff complement for the 1988-89 fiscal year was 33, and at the date of release of this Report comprised:

Senior Staff		5
Auditor General, Deputy and Assistant Auditor General, and two Directors (1 vacancy at Director level)		
Audit Teams and Support Staff		24
Audit Managers and Supervisors	9	
Senior Audit Officers with Professional Qualifications	5	
Audit Officers — includes Students and Technicians (1 vacancy)	10	
Administrative Support Staff		4
		33

We were fortunate to have three Chartered Accountants join our staff during 1988, as well as a qualified computer technical support person. All have made worthwhile contributions in their work assignments with us to date.

Financial

The Auditor General Act provides for the payment of operating expenses incurred by the Office, along with the recovery of costs and fees charged for specific examinations and audits. The approved estimate and the actual expenditures and recoveries for the year ended March 31, 1988 are shown below, as well as the 1986-87 actuals. The actual net expenditures for 1987-88 are less than the approved estimate, principally because of lower salary expenses, once again attributable to staff turnover, as well as an increase in the amount of recoveries charged.

Salary expenses increased considerably in 1987-88 because, for the first time, the cost of employee benefits were allocated to the various offices. The 1987-88 provision for such costs was estimated at $121,100 while the actual was $125,968.

	1987-88		1986-87
	Estimate	**Actual**	**Actual**
Expenditures			
Salaries and benefits	$1,380,100	$1,329,799	$1,155,888
Other	163,600	170,552	198,345
	1,543,700	1,500,351	1,354,233
Recoveries	122,000	141,500	154,900
Net Expenditures	$1,421,700	$1,358,851	$1,199,333

Professional Development and Affiliations

In a professional audit office such as ours, there is a continuing need to maintain a high degree of competence directly related to the performance of our legislated and other audit responsibilities. These include developments in audit and accounting standards and techniques, contemporary computer literacy demands which have both audit and administrative ramifications, and an ability to perform

assignments which often go beyond the traditional financial statement opinion and compliance audits. Moreover, there are increasing expectations of legislative auditors for greater breadth and depth of audit coverage, such as the transfer payment audit mandate assigned to this Office.

To meet these demands and to provide better and more efficient service, we pursue various initiatives. These include membership in professional and other appropriate associations and organizations, active participation in the exchange of information with other legislative auditors, the conduct of our own technical seminars and attendance at ones presented by others.

During the past year, we developed and introduced a revised training program for students and technicians, and a revised professional development program for professional staff. This program is more intense and structured than previous training and development efforts of the Office. A large number of the courses are prepared and presented by our own staff. Others are conducted by the Civil Service Commission of the Province, professional associations and institutes, and other educational bodies.

In 1988, training was taken by members of staff, in areas such as audit techniques, computer audit and related courses, time management, and other management courses. In the spring of 1989, we plan an intensive course in broad scope auditing for all professionally qualified members of our staff. This course will be presented by our own staff, using course materials from the Canadian Comprehensive Auditing Foundation, and our own recent audit experiences in this field.

Our Office was privileged to host the 16th Annual Meeting of the Canadian Conference of Legislative Auditors, in July of 1988. This Conference is held in conjunction with a meeting of the Canadian Council of Public Accounts Committees. There was one joint session of both groups, which was devoted to a discussion of a recently completed study by the Council on the role of Public Accounts Committees and their relationships with Legislative Auditors. There were a variety of other technical sessions concerning matters such as accounting issues relating to pensions and financial statement presentation for governments, debt management, auditing of the Public Accounts, and various administrative topics pertaining to legislative audit offices.

In addition, the Atlantic Provinces Legislative Auditors meet annually. In October 1988, a two-day meeting of this group was held in Charlottetown. Each of the four Auditors General, together with the Deputies and Assistant Auditors General, meet to discuss common auditing and administrative matters. These sessions provide the opportunity to review items of interest and concern at a different level than the national conference affords, and also facilitate a degree of cooperation and interchange in various areas.

We maintain a membership in the Canadian Comprehensive Auditing Foundation. The Foundation sponsors an annual conference, which was held in Montreal in November 1988. The conference presented a range of sessions on audit experiences and research initiatives, most of which are quite relevant to our audit responsibilities in Nova Scotia.

We currently have six students enrolled in the professional accounting programs of the Society of Management Accountants and the Certified General Accountants Association. These students take evening courses at university, or correspondence courses from their respective accounting associations, supplemented by tutorial assistance for certain courses. In addition, members of our staff provide a degree of assistance to the students in preparing them for the examinations of their programs.

Several of our staff participate extensively, generally on their own time, in various professional organizations by serving on Councils and Committees. We commend these individuals for the contribution they are making, and are pleased to be in a position to provide this resource to the respective organizations which they serve.

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APPENDICES

APPENDIX I

Auditor General Act

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(ba) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(l) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

(g) money which is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency,

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a), (b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

(4) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of government of any significant matter discovered in an audit.

(5) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

Section 14

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General
In Government Departments

Advanced Education and Job Training
- Department operations
- Student Assistance
- University Assistance

Agriculture and Marketing
- Department operations

Attorney General
- Criminal Injuries Compensation Board
- Department operations
- Legal Aid Federal Claim
- Legal Aid Trust Fund
- Young Offenders Act

Community Services
- Canada Assistance Plan
- Family Benefits
- Grants and Assistance

Consumer Affairs
- Department operations

Education
- Museum claims
- Nova Scotia Teachers' College
- School grants

Environment
- Department operations

Finance
- Additional appropriations
- Cash and manual cheque control
- Disbursements
- Payroll
- Pension Benefits Act
- Pension fund investments
- Revenues
- Securities count
- Trusts and semi-trusts

Fisheries
- Department operations

Government Services
- Department operations

Health and Fitness
Hospital construction grants
Payments to institutions
Housing
Department operations
Industry, Trade and Technology
Department operations
Labour
National Training Act claim
Lands and Forests
Department operations
Mines and Energy
Department operations
Municipal Affairs
Department operations
Public Service
Department operations
Motor Carrier Act
Tourism and Culture
Department operations
Transportation and Communications
Capital expenditures
Current expenditures
Department revenue systems

Note — *The above tabulation does not include the 11 Special Departmental Reviews described in the section of this Report beginning on page 110.*

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APPENDIX III

Audits Performed by Auditor General
Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations
- Community Pastures Board
- Nova Scotia Crop and Livestock Insurance Commission
- Provincial Grain Commission

Education Institution
- Atlantic Provinces Special Education Authority

Hospitals
- Camp Hill Medical Centre
- Cancer Treatment and Research Foundation of Nova Scotia
- Halifax Infirmary Foundation
- Nova Scotia Hospital
- Victoria General Hospital

Lending Organizations and Funds
- Housing Development Fund
- Industrial Expansion Fund
- Industrial Loan Fund
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries Development Fund
- Nova Scotia Housing Development Corporation
- Small Business Development Corporation

Pensions
- Members' Retiring Allowance Account
- Nova Scotia Teachers' Pension Fund
- Public Service Superannuation Fund

Regulatory Bodies
- Board of Commissioners of Public Utilities
- Nova Scotia Lottery Commission
- Public Accountants Board of the Province of Nova Scotia

Other
- Novaco Limited
- Nova Scotia Legal Aid Commission
- Nova Scotia Primary Forest Products Marketing Board
- Nova Scotia Research Foundation Corporation
- Nova Scotia Talent Trust
- Public Trustee

Note — *The above tabulation does not include the four audits described in the section of this Report beginning on page 83.*

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APPENDIX IV

Audits Performed by Private Sector Auditors
Crown Corporations, Boards, Commissions and Agencies

Art Gallery of Nova Scotia
Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Industrial Estates Limited
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Trade Centre Limited
Waterfront Development Corporation Limited
Workers' Compensation Board

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait-Richmond Hospital
Sydney City Hospital
Twin Oaks Memorial Hospital

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